



nelson mandela bay
M U N I C I P A L I T Y
PORT ELIZABETH | UITENHAGE | DESPATCH

ANNUAL REPORT 2006/07

TABLE OF CONTENTS

Chapter	Description	Page
I	Executive Mayor's Foreword	1
II	Municipal Manager's Statement	3
1.	(A) Introduction and Overview	4
	(B) Executive Summary	7
2.	How did we perform?	13
3.	Human Resources and other Organisational Management	37
4.	Grants and Assessment of Arrears	40
	Annexure "A" Financial Information	42
	Annexure "B" Functional Area Service Delivery Reporting	275
	Annexure "C" Report on Municipal Entities	303

~~~o0o~~~

|                |                                   |
|----------------|-----------------------------------|
| <b>CHAPTER</b> | <b>EXECUTIVE MAYOR'S FOREWORD</b> |
|                |                                   |

Significant progress was made during the 2006/07 financial year in intensifying the Municipality's struggle against poverty and inequalities thereby enhancing the quality of life of the residents of Nelson Mandela Bay. Whilst the political leadership acknowledges this progress, it is also very conscious that some sections of our communities are still living in poverty. Together with our communities, we remain steadfast in our resolve to address these challenges.

This annual report presents an honest expression of the Municipality's performance during the year in question, as well as the challenges that confronted us and the interventions we undertook.

To entrench and deepen democracy, the Municipality introduced the Ward-based Planning approach. As this was a new initiative, lessons were learnt that will be used to improve and enhance this approach, thereby ensuring that our people are governing with us. This will be complemented by other Community Outreach Programmes, during which our Councillors will interact with communities.

As the political collective of the Nelson Mandela Bay Metropolitan Municipality, we will continue to honour the pledge that we made and carry out the mandate given to us by the communities, namely to accelerate service delivery and development, fight poverty and unemployment as well as create a safe and healthy environment for our communities, as enshrined in our Constitution as well as the Freedom Charter.

The Municipality has initiated programmes to ensure that the following challenges are addressed vigorously:

- Development of sustainable integrated human settlement.
- Relocation of people living in flood plain areas.

- Crime prevention.
- Infrastructure development, especially in the previously disadvantaged areas.

**COUNCILLOR NONDUMISO MAPHAZI**  
**EXECUTIVE MAYOR**

**'INTENSIFYING THE STRUGGLE AGAINST POVERTY'**

| CHAPTER | <b>MUNICIPAL MANAGER'S<br/>STATEMENT</b> |  |
|---------|------------------------------------------|--|
|         |                                          |  |

An efficient and effective administration provides the core support mechanism to political leadership in eliminating poverty and inequalities. Over the review period, the Municipality successfully developed and implemented a number of initiatives to stabilise its administration. These include the following:

- Rationalisation of top management structures
- Appointment of key strategic personnel
- Finalisation of disciplinary steps against suspended senior managers
- Development and implementation of a Human Resources Turnaround Strategy
- Development of a Workplace Skills Development Plan
- Review of departmental structures
- Controlled filling of vacancies

In addition to the above successes, the following areas presented some challenges and will receive continuing attention during the 2007/08 financial year:

- Finalisation of the TASK Job Evaluation Process
- Co-ordination and integration within the administration for better service delivery
- Addressing of skills shortages in critical and technical areas
- Extending the performance management system to lower levels of the administration
- Improved and timeous planning to enhance the implementation of projects and financial expenditure

**J G RICHARDS (ADV)**  
**MUNICIPAL MANAGER**

**CHAPTER****1****(A) INTRODUCTION AND OVERVIEW**

The Nelson Mandela Bay Municipality is situated on the coastline of the Eastern Cape Province of South Africa, known for its scenic beauty and abundant wildlife.

**POPULATION**

Nelson Mandela Bay (NMB) has a population of 1,1 million and covers an area of 1,950 km<sup>2</sup>. The city has a relatively youthful population, with 37% residents between the ages of 15 and 34 years, indicating that education and job creation require serious attention. Altogether 26,2% of the population is below the age of 15 years, while 5,3% is 65 years and above. The male:female ratio of the population are 48%:52%.

**HOUSEHOLD DATA**

Total number of households = 265 109 (Census 2001)

Altogether 38% of households are indigent.

Number of informal households = 30 000 (56 settlements)

**SOCIO-ECONOMIC TRENDS**

Nelson Mandela Bay is the largest contributor to the economy of the Eastern Cape Province. It contributes 44% of the provincial GGP. The unemployment rate within the Bay area is approximately 35%. The economic growth rate for 2006/07 was 4,7%.

With regard to education, 29% of the population over 15 years has a matriculation or higher qualification, while 4.2% of adults has degrees. Altogether 8,5% of residents older than 15 years are functionally illiterate, highlighting the need for skills development.

## **COMMUNITY FACILITIES**

Number of community halls = 44

Number of households that lie within 2km of a community hall = 173 766

Number of sports facilities:

- Sports stadia = 11
- Sports complexes = 16
- Formal sports facilities = 141
- Informal sports facilities = 18

Number of households that lie within 2km of a sports facility = 186 835

## **EXECUTIVE MAYORAL COMMITTEE SYSTEM**

The Municipality has an Executive Mayoral Committee system, which consists of the Executive Mayor, Deputy Executive Mayor and nine Mayoral Committee members, who serve as Chairpersons of Standing Committees.

In addition, the Municipality has 120 Councillors (60 Proportional Representation (PR) Councillors, and 60 Ward Councillors). During 2006/07, ten Council meetings, twenty Mayoral Committee meetings and 61 Standing Committee meetings were held.

## **ADMINISTRATION**

The administration is headed by the Municipal Manager and the following Directorates:

- Budget and Treasury Directorate
- Corporate Services Directorate
- Economic Development and Recreational Services Directorate
- Electricity and Energy Directorate
- Environment and Health Directorate

- Housing and Land Directorate
- Infrastructure and Engineering Directorate
- Office of the Chief Operating Officer
- Safety and Security Directorate

The Annual Report sets out the priorities of the Nelson Mandela Bay Municipality in 2006/07, its key achievements, challenges and service delivery improvements, as well as its targets for the next financial year.



**CHAPTER****1****(B) EXECUTIVE SUMMARY****MUNICIPAL VISION**

"A globally competitive city that works together with the people".

This shared vision provides the foundation for the achievement of the Municipality's priorities.

**MISSION STATEMENT OF NELSON MANDELA BAY MUNICIPALITY**

*"Nelson Mandela Bay Municipality is a global city that is governed by an inclusive and innovative Municipality, focused on sustainable service delivery, socio-economic and infrastructure development and local regional integration."*

**NELSON MANDELA BAY MUNICIPALITY'S CORE VALUES**

The Municipality is committed to deliver services within the framework of *Batho Pele* principles, as outlined below:

- **Courtesy and 'People First'**

Residents should be treated with courtesy and consideration at all times.

- **Consultation**

Residents should be consulted about service levels and quality, when possible.

- **Service excellence**

Residents must be made aware of what to expect in terms of level and quality of service.

- **Access**

Residents should have equal access to the services to which they are entitled.

- **Information**

Residents must receive full and accurate information about their services.

- **Openness and transparency**

Residents should be informed about government departments, operations, budgets and management structures.

- **Redress**

Residents are entitled to an apology, explanation and remedial action if the promised standard of service is not delivered.

- **Value for money**

Public services should be provided economically and efficiently.

An overview of basic service delivery and financial performance highlights of the institution during the 2006/07 financial year is presented below:

### **1.1 Water and sanitation**

Altogether 100% of all formal households now have access to a basic level of water supply. Informal areas are being provided with standpipes, except where people are occupying private land or uninhabitable electrical servitudes. Progress with regard to the provision of water and sanitation services is reflected below:

| <b>Type of service</b>           | <b>2005/06</b> | <b>2006/07</b> |
|----------------------------------|----------------|----------------|
| Water (formal and informal)      | 92%            | 93%            |
| Sanitation (formal and informal) | 90%            | 91%            |

Altogether 99% of households in formal areas have access to sanitation. If informal areas are included, 91% have access to a basic level of sanitation services.

### **1.2 Electricity**

Altogether 98% of households now have access to electricity. A total of 5 364 households were electrified during the 2006/07 financial year. Progress with regard to the provision of electricity is reflected below:

|                                            | <b>2005/06</b> | <b>2006/07</b> |
|--------------------------------------------|----------------|----------------|
| % of households with access to electricity | 95%            | 98%            |

### 1.3 Refuse removal

Altogether 99,8% of households in Nelson Mandela Bay now have a basic level of solid waste service. Altogether 5 972 new households were provided with access to a basic level of solid waste removal. Progress with regard to refuse removal is reflected below:

|                                                       | 2005/06 | 2006/07 |
|-------------------------------------------------------|---------|---------|
| % of households with access to refuse removal service | 99,4%   | 99,8%   |

### 1.4 Housing and land delivery

Altogether 3 506 low-cost housing units were built during the 2006/07 financial year. This number has decreased from 5 440 in the previous year reflecting the organisational challenges in the Housing Directorate. In response, a housing delivery turnaround strategy has been developed and is currently being implemented. As the current housing backlog is approximately 80 000 units, housing delivery remains one of the major challenges facing the Municipality. Progress with regard to housing is reflected below:

|                                     | 2005/06 | 2006/07 |
|-------------------------------------|---------|---------|
| Number of new low-cost houses built | 5 440   | 3 506   |

### 1.5 Free basic services

The Municipality has an Assistance-to-the-Poor Policy in place. Altogether 100% of all qualifying households are receiving free basic services. Information with regard to the provision of free basic services is reflected below:

| <b>Number of households receiving free basic services (6 kl of water and 50 kWh electricity)</b> | <b>Water</b> | <b>Electricity</b> |
|--------------------------------------------------------------------------------------------------|--------------|--------------------|
| 2005/06                                                                                          | 93 593       | 90 423             |
| 2006/07                                                                                          | 89 525       | 94 196             |

### **1.6 Financial sustainability**

The Municipality's financial position is sound, as reflected by the following credit ratings:

| <b>RATING HISTORY</b> | <b>2005/06</b> | <b>2006/07</b> |
|-----------------------|----------------|----------------|
| Long-term             | zaA            | zaA            |
| Short-term            | zaA1           | zaA1           |

Ratings indicate a strong capacity on the part of the NMBM to repay both long- and short-term liabilities.

The Municipality also experienced an improvement in revenue collection, as reflected by the table below:

| <b>FINANCIAL YEAR</b> | <b>TARGET</b> | <b>ACTUAL</b> |
|-----------------------|---------------|---------------|
| 2005/06               | 96%           | 96%           |
| 2006/07               | 97%           | 97%           |

The Municipality's capital expenditure over the review period, as well as personnel costs, is reflected below:

- Capital expenditure of 87,33%
- Low personnel costs of 29,40%

## **KEY AWARDS WON FOR 2006/07 FINANCIAL YEAR**

The Municipality and its residents are proud to have been honoured with the following important awards for excellent performance:

- The national Vuna Award; for the key performance areas of service delivery and local economic development.
- The World Leadership Award; in the category of Health for the Emmanuel Haven Hydroponics Project as well as for the Best African City of the Year.
- 2006/07 Star Award, for contributing to poverty alleviation (second place).

More comprehensive performance information is provided in Chapter 2 under "How did we perform?" This will cover the following key performance areas:

- Municipal transformation and organisational development
- Basic service delivery and infrastructure development
- Local economic development
- Municipal financial viability and management
- Good governance and public participation

## CHAPTER 2

### HOW DID WE PERFORM?

#### KPA 2.1 SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT

| KEY PERFORMANCE ELEMENT (KPE)                                 | KEY PERFORMANCE INDICATOR (KPI)                                                       | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------|---------------------------------------------------------------------------------------|----------|----------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The provision of basic and other services:<br><br>2.1.1 Water | % of households with access to basic level of water (formal and informal areas)       | 92%      | 97%            | 93%            | The programme follows the housing delivery process and the number of houses built did not reach the target. Also refer to 2.1.2 under sanitation.                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                                               | % water unaccounted for                                                               | 26%      | 25%            | 35%            | The calculation for unaccounted for water is in the process of being revised nationally. Unaccounted for water is not limited to water losses, but also includes unmetered water, unmetered standpipes and consumers not on the billing system. With regard to metering, the Municipality is in the process of installing water meters in unmetered areas. The Property Valuation is also assisting in identifying consumers not on the billing system. The Municipality is also in the process of completing its asset register and management systems. |
|                                                               | Number of new water meters installed in unmetered areas                               |          | 5000           | 7487           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                               | % adherence to international standards for the quality of water supplied to consumers |          | 100%           | 100%           | The Municipality has a Scientific Division to test and monitor the quality of the water supply.                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

| KEY PERFORMANCE ELEMENT (KPE)    | KEY PERFORMANCE INDICATOR (KPI)                                                                                                    | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------|----------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>2.1.2 Sanitation</b>          | % of households with access to basic level of sanitation (formal and informal)                                                     | 90%      | 95%            | 91%            | The programme follows the housing delivery process and the number of houses built did not reach the target.                       |
|                                  | Elimination of the bucket system                                                                                                   |          | 11250          | 3506           | DWAF decided not to allocate funds for the elimination of the bucket system in the informal areas leaving the programme unfunded. |
|                                  | Elimination of shared toilets                                                                                                      |          | 1500           | 1657           |                                                                                                                                   |
| <b>2.1.3 Solid Waste Removal</b> | % of households with access to a basic level of waste removal service (formal urban areas)                                         |          | 100%           | 100%           | All formal urban areas receive a kerbside refuse service.                                                                         |
|                                  | % of households with access to a basic level of waste removal service (formal peri-urban areas)                                    |          | 100%           | 100%           | All formal peri-urban areas receive a kerbside waste service.                                                                     |
|                                  | % of households with access to a basic level of waste removal service (informal urban and peri-urban areas minimum basic services) | 99,4%    | 100%           | 99.80%         |                                                                                                                                   |
|                                  | Number of new households provided with a basic level of solid waste removal                                                        | 4 214    | 5000           | 5 972          |                                                                                                                                   |
|                                  | Distribution of 15 000 wheely bins to low-income households                                                                        |          | 15000          | 12899          | The households that represent the difference between 12899 and 15000 are being provided with a black plastic bag service.         |



| KEY PERFORMANCE ELEMENT (KPE)    | KEY PERFORMANCE INDICATOR (KPI)                                                   | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                    |
|----------------------------------|-----------------------------------------------------------------------------------|----------|----------------|----------------|---------------------------------------------------------------------------------------|
| <b>2.1.4 Electricity</b>         | % of households (dwellings) on official surveyed sites with access to electricity | 95%      | 98%            | 98%            |                                                                                       |
|                                  | Number of RDP houses electrified per annum                                        |          | 5000           | 1654           | The supply of electrical services to RDP houses follows the housing delivery process. |
|                                  | Number of other houses electrified per annum                                      |          | 3000           | 3710           |                                                                                       |
|                                  | Total number of streetlights installed per annum                                  |          | 230            | 724            |                                                                                       |
|                                  | Total number of high-mast lights installed per annum                              |          | 16             | 15             |                                                                                       |
|                                  | % electricity losses due to technical reasons                                     | 5,7%     | 6%             | 6%             |                                                                                       |
|                                  | % electricity losses due to theft                                                 | 1,1%     | 0.50%          | 0.50%          |                                                                                       |
|                                  | Number of domestic hot-water control demand side management (DSM) installed       |          | 22000          | 22000          |                                                                                       |
|                                  | % of qualifying households receiving ATP                                          | 100%     | 100%           | 100%           |                                                                                       |
|                                  |                                                                                   |          |                |                |                                                                                       |
| <b>2.1.5 Free Basic Services</b> |                                                                                   |          |                |                |                                                                                       |

| KEY PERFORMANCE ELEMENT (KPE)             | KEY PERFORMANCE INDICATOR (KPI)                                                                         | BASELINE                                                 | TARGET 2006/07                   | ACTUAL 2006/07          | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2.1.6 Health (primary health care)</b> | Number of new clinics constructed                                                                       | Site identified, construction to commence during 2006/07 | 1 Walmer Community Health Center | Building work commenced | Building has commenced on the New Walmer Gqebera Clinic. The soil turning ceremony took place on 25 June 2007. The project was delayed due to the need to source additional funding after increase in the building cost. Estimated date of completion: Nov. 2007. |
|                                           | Number of clinics upgraded                                                                              | 2                                                        | 3                                | 0                       | Applications for MIG funding have been submitted to upgrade three clinics (ART sites). Awaiting approval of funding. Funding approval has delayed the completion of this project.                                                                                 |
|                                           | Number of clinics converted to allow disability access                                                  |                                                          | 5                                | 5                       | Disability access for the five clinics earmarked for the 2006/07 year was completed by September 2006. Application for funding for the next five clinics have been made and the roll-out will continue in the 2007/08 financial year.                             |
|                                           | Per quarter average community health nurse to patient ratio per day                                     |                                                          | 1.50                             | 1.53                    | Nursing staff shortages are contributing to the NMBM nurse:patient ratio being higher than the national norm of 1:35.                                                                                                                                             |
|                                           | % of clinics providing anti-natal services and integrated management care of childhood illnesses (IMCI) |                                                          | 78%                              | 78%                     |                                                                                                                                                                                                                                                                   |

| KEY PERFORMANCE ELEMENT (KPE)                        | KEY PERFORMANCE INDICATOR (KPI)                                                                        | BASELINE | TARGET 2006/07    | ACTUAL 2006/07           | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                                                                                                      |
|------------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------|-------------------|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1.7 Health (HIV and Aids and TB)                   | Number of municipal ARV treatment sites accredited and operational                                     |          | 5                 | 2                        | Two NMBM sites received accreditation during a visit early in the financial year. The National HIV and Aids Directorate has indicated that the other three sites will not be re-evaluated for accreditation at this stage. However, all five NMBM sites continue to provide ART services. Two ECDOH PHC ART sites has been earmarked for accreditation. |
|                                                      | New smear positive successful treatment rate (%)                                                       |          | 70%               | 71%                      | NMBM clinics reached a 71% new smear positive successful treatment rate. A revised TB Crisis Plan has been submitted to the EC Dept. of Health and National Dept. of Health - awaiting approval.                                                                                                                                                        |
|                                                      | Existence of a revised municipal-wide strategy and programme for HIV and Aids prevention and treatment |          | Strategy in place | Stakeholder consultation | The target date was adjusted to October 2007 in consultation with the Eastern Cape Aids Council, for launching on World Aids Day, 1 December 2007.                                                                                                                                                                                                      |
| <b>2.1.8 Integrated human settlement development</b> |                                                                                                        |          |                   |                          |                                                                                                                                                                                                                                                                                                                                                         |
| 2.1.8.1 Housing provision                            | Number of low cost houses built                                                                        | 5 440    | 5000              | 3506                     | The Municipality experienced a number of challenges with regard to housing delivery. A comprehensive turn-around programme has been developed and is currently being implemented.                                                                                                                                                                       |

| KEY PERFORMANCE ELEMENT (KPE)                             | KEY PERFORMANCE INDICATOR (KPI)                                                          | BASELINE | TARGET 2006/07 | ACTUAL 2006/07                            | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------------------|------------------------------------------------------------------------------------------|----------|----------------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1.8.1 Housing Provision (continued)                     | Number of housing opportunities provided through the transfer of municipal housing stock |          | 1500           | 624                                       | To-date approximately 61 000 housing stock have been transferred. Some difficulties are being experienced with transferring the balance due to legalities (e.g. divorcing couples, etc). A Task Team has been established to attend to this in order for the balance to be transferred.                                                                                                                      |
| 2.1.8.2 Social housing and inner-city housing development | Number of houses provided through social housing                                         |          | 150 Units      | 0<br>(identification of land in progress) | Three areas have been identified and subsequently approved for social housing. The delivery of social housing is the responsibility of accredited NGOs, while the Municipality is responsible for providing land. In addition to the aforementioned three areas, the Municipality is currently taking measures to ensure that seven additional pieces of land will be accredited in the restructuring zones. |
| 2.1.9 Roads, stormwater and transportation                | Tarring of roads in old residential areas (km)                                           | 8 km     | 14 km          | 9.50 km                                   | Several contracts in progress for completion in 2008. Some contracts have been delayed, e.g. awaiting DEAT approvals.                                                                                                                                                                                                                                                                                        |
|                                                           | Resurfacing of roads (km)                                                                | 110 km   | 180 km         | 177 km                                    |                                                                                                                                                                                                                                                                                                                                                                                                              |
|                                                           | Rehabilitation or reconstruction of roads (km)                                           |          | 5 km           | 1.50 km                                   | Several contracts are in progress for completion in 2008. Some contracts have been delayed, e.g. awaiting DEAT approvals.                                                                                                                                                                                                                                                                                    |

| KEY PERFORMANCE ELEMENT (KPE)                                 | KEY PERFORMANCE INDICATOR (KPI)                                                                                             | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                    |
|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|----------|----------------|----------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>2.1.9 Roads, stormwater and transportation (continued)</b> | Re-gravelling of roads (km)                                                                                                 |          | 50 km          | 252 km         | Big variance as a result of severe damage to infrastructure during two big flood events in 2006/07.                   |
|                                                               | Augmentation of stormwater pipes (km)                                                                                       |          | 6              | 1.70           | Several contracts in progress for completion in 2008. Some contracts have been delayed, e.g. awaiting DEAT approvals. |
|                                                               | % coverage of community according to public transport norm of 500 m walking distance to a terminus or public transport stop | 100%     | 100%           | 100%           |                                                                                                                       |
|                                                               | Length of sidewalks and cycle paths constructed                                                                             |          | 30             | 42             |                                                                                                                       |
|                                                               | Provision of traffic calming measures, including speed humps                                                                |          | 40             | 133            |                                                                                                                       |
| <b>2.1.10 Sports, recreation and culture</b>                  | Number of mobile library visits in outlying areas                                                                           |          | 292            | 292            |                                                                                                                       |
|                                                               | Number of libraries with disability access and facilities                                                                   |          | 21             | 21             |                                                                                                                       |

| KEY PERFORMANCE ELEMENT (KPE) | KEY PERFORMANCE INDICATOR (KPI)                                                        | BASELINE | TARGET 2006/07     | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS    |
|-------------------------------|----------------------------------------------------------------------------------------|----------|--------------------|----------------|---------------------------------------|
| 2.1.11 Customer care          | Response time to respond to queries in line with Batho Pele principles                 |          | 14 days            | 14 days        |                                       |
|                               | Response time to restore services due to electricity power failure (minor disruptions) |          | 2 hrs              | 3 hrs          |                                       |
|                               | Response time to restore services due to electricity power failure (major disruptions) | 12 hrs   | 12 hrs             | 12 hrs         |                                       |
|                               | Response time for new electricity connections (days)                                   | 15 days  | 15 days            | 21 days        |                                       |
|                               | Response time to replace credit meters with prepaid meters (weeks)                     | 4 weeks  | 3 weeks            | 3 weeks        |                                       |
|                               | Response time to restore water and sanitation (minor)                                  |          | 90% within 24 hrs  | 90%            |                                       |
|                               | Response time to restore water and sanitation (major)                                  |          | 100% within 48 hrs | 100%           |                                       |
|                               | Response time for approval of zoning plans (new residential)                           |          | 3 months           | 6 months       | Delays are due to long-term disputes. |

| KEY PERFORMANCE ELEMENT (KPE)           | KEY PERFORMANCE INDICATOR (KPI)                                             | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                          |
|-----------------------------------------|-----------------------------------------------------------------------------|----------|----------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2.1.11 Customer Care (continued)</b> | Response time for approval of zoning plans (residential additions)          |          | 3 months       | 6 months       | Delays are due to long-term disputes.                                                                                                                                                                                       |
|                                         | Response time for approval of zoning plans (commercial)                     |          | 6 months       | 6 months       |                                                                                                                                                                                                                             |
|                                         | Response time for approval of zoning plans (industrial)                     |          | 6 months       | 6 months       |                                                                                                                                                                                                                             |
|                                         | Response time for approval of building plans (new residential – days)       |          | 7 days         | 7 days         |                                                                                                                                                                                                                             |
|                                         | Response time for approval of building plans (residential additions – days) |          | 7 days         | 7 days         |                                                                                                                                                                                                                             |
|                                         | Response time for approval of building plans (commercial – days)            |          | 7 days         | 7 days         |                                                                                                                                                                                                                             |
|                                         | Response time for approval of building plans (industrial – days)            |          | 7 days         | 7 days         |                                                                                                                                                                                                                             |
|                                         | Creditors days                                                              | 57 days  | 45 days        | 55 days        | The reason for the 55 days at year-end is as a result of the Directorates processing large volumes of orders that have to be paid before year-end. This results in some payments not being paid within the prescribed time. |

**Other service delivery and infrastructure development performance related information is outlined below:**

**(a) Electricity**

The Municipality has initiated an innovative process to provide renewable energy. This includes the use of wind turbines, solar heating and electricity generation from solid waste. Some energy efficient measures, such as demand side management on municipal buildings, infrastructure and street lights, were also initiated. Phase 1 of the hot-water load control project, during which 22 000 units were installed, has been completed. The second phase will see the installation of an additional 60 000 units. The Municipality is progressing well with the implementation of the EDIR programme, in line with the national targets.

**(b) Solid waste removal and other environmental services**

Progress has been made with regard to solid waste removal. In addition to the cleansing function performed by the Municipality itself, co-operatives are also used for refuse collection, litter picking and street sweeping. In this regard, five co-operatives are currently operational. This is also part of the Municipality's initiatives to create jobs and reduce poverty.

The Municipality's initiatives with regard to solid waste removal have been rewarded with a number of cleanest city national awards by the Department of Environmental Affairs and Tourism. The Municipality was also placed second for the 2006/07 Star Awards by the National Selection Committee of the Impumelelo Innovations Award Trust, recognising the exceptional contribution to poverty reduction and community development in South Africa by community co-operatives rendering waste management services.

One of the challenges facing the Municipality is illegal dumping. To respond to this challenge, the Municipality introduced a ward-based cleaning and greening programme, which is being piloted in fifteen wards and has created 450 jobs thus far. The programme is set to be extended to other areas.



Other performance highlights with regard to environmental services include the upgrading of 32 public open spaces, the planting of 2 892 trees and the implementation of the beach development project.

**(c) Housing delivery**

To address housing challenges, the Municipality developed a turn-around strategy, which includes the appointment of an inter-Directorate task team to co-ordinate aspects of housing delivery. Other processes that have been initiated, include the rationalisation of the Housing Directorate, as well as the appointment of its Executive Director. A comprehensive audit on housing delivery and forensic investigations was initiated. Furthermore, the Municipality has adopted a co-operative government approach with regard to housing delivery with the National Department of Housing, as well as the Provincial Department of Housing, Local Government and Traditional Affairs.

Zanenvula is a key project, implemented jointly between the three spheres of government. Zanenvula forms part of the Breaking New Ground Project. The aim of Zanenvula is to deliver approximately 12 053 units by 2010. This project will be implemented in line with the Municipality's sustainable community planning concept. On 27 February 2007, the three spheres of government signed a co-operative agreement, in terms of which Thubelitsha will serve as the implementing agent.

Residents living in distressed areas, such as flood plains, are a concern. Following the disastrous August 2006 floods, 1 890 families have been relocated from flood plains in terms of Zanenvula Project, and the Municipality has intensified the relocation programme in all distressed areas of Nelson Mandela Bay.

To enhance the integration of communities, as well as to cater for the category that falls above the threshold of RDP houses, a social housing policy was developed.

**(d) Assistance-to-the-Poor initiatives**

In addition to the provision of basic services to indigent households, the Municipality introduced a programme to address high water leakages in these households. This project has also assisted in creating jobs in these poor communities. Currently, 51 community-based plumbers are implementing this programme. The programme is being extended throughout Nelson Mandela Bay. A new initiative by the Municipality is the insurance of low-cost houses against natural disasters.

**(e) Asset management systems**

To ensure the proper maintenance and management of assets, the Municipality has embarked on a programme to develop asset registers and management systems. This will enable the Municipality to enhance the management of its assets, properly plan, reduce service disruptions and determine future capacity requirements. The project will be completed during the 2007/08 financial year.

**(f) Sports and recreation**

The Municipality is on course to meet its host city deadlines for the 2010 FIFA Soccer World Cup. These include the following:

- Completion of the construction of the multi-purpose stadium by December 2008
- Hosting the Confederation Cup in 2009
- Developing and implementing legacy projects

In addition, a number of people benefited from municipal sports development programmes. These include the following:

- 75 (soccer coaching)
- 220 (rugby coaching)
- 35 (cricket coaching)

- 29 (swimming coaching)
- 25 (netball coaching)
- 40 (athletics coaching)
- Over 500 children from the previously disadvantaged areas benefited from the Learn-to-Swim Programme.

Among the numerous national and international sporting events that were hosted in Nelson Mandela Bay, are the following:

- Specsavers SA Ironman
- SAA Open Gholf Championships
- Gervans NMB Sevens Rugby

These high-profile events, which attracted many thousands of national and international visitors, have placed Nelson Mandela Bay firmly on the world map.

#### **(g) Safety and security**

Crime prevention is one of the key municipal priorities. In this regard, Council approved a business plan for the establishment of a municipal police service. Altogether 16 CCTV cameras were installed in the CBD and beachfront areas.

An additional 25 CCTV cameras will be installed as part of Govan Mbeki Avenue upgrading. There has been a 17% reduction in case backlogs as a result of the introduction of municipal courts in the Port Elizabeth and Uitenhage areas. Altogether six disaster management satellite centres are operational; one is introduced annually to reach a target of ten. The response times of the emergency services are reflected below:

|                                    | <b>TARGET</b> | <b>ACTUAL</b> |
|------------------------------------|---------------|---------------|
| Average response time to fire      | 10 min.       | 9 min.        |
| Average response time to disaster  | 30 min.       | 30 min.       |
| Average response time to accidents | 10 min.       | 10 min.       |

## KPA 2.2 MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT

| KEY PERFORMANCE ELEMENT (KPE)           | KEY PERFORMANCE INDICATOR (KPI)                     | BASELINE | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                                                                                                                                       |
|-----------------------------------------|-----------------------------------------------------|----------|----------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2.2.1 Sound financial management</b> | Personnel costs to total operating income           | 31%      | 31%            | 29.40%         |                                                                                                                                                                                                                                                                                                          |
|                                         | Revenue collection improved to and sustained at 97% | 96%      | 97%            | 97%            |                                                                                                                                                                                                                                                                                                          |
|                                         | % expenditure (capital total)                       | 87,33%   | 95%            | 87.60%         | Refer to point (c) below Other municipal financial viability and management performance.                                                                                                                                                                                                                 |
|                                         | % expenditure (MIG)                                 |          | 95%            | 92%            |                                                                                                                                                                                                                                                                                                          |
|                                         | % expenditure (Restructuring Grant)                 | 48,5%    | 95%            | 80.60%         | Refer to point (c) below Other municipal financial viability and management performance.                                                                                                                                                                                                                 |
|                                         | Existence of a debt-to-income ratio of 25%          | 24,77%   | 25%            | 4.5%           | The reason for the drop in the debt-to-income ratio is the fact that in the past the Municipality included the Post-Retirement Funding figure (R299 million) in its debt amount. The Municipality has now taken this figure out and only includes external debt, hence the large reduction in the ratio. |

| KEY PERFORMANCE ELEMENT (KPE)    | KEY PERFORMANCE INDICATOR (KPI)                    | BASELINE  | TARGET 2006/07 | ACTUAL 2006/07 | EXPLANATION OF VARIANCE / COMMENTS                                                                                                                                                    |
|----------------------------------|----------------------------------------------------|-----------|----------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.2.1 Sound financial management | Net debtors to annual operating income             | 18,3%     | 16%            | 12.4%          | The net debtors ratio focuses on the amount owed by net debtors as a percentage of the annual operating income. A lower percentage indicates the Municipality is recovering its debt. |
|                                  | Repairs and maintenance to annual operating income |           | 9%             | 7.20%          |                                                                                                                                                                                       |
|                                  | Cost coverage                                      | 11 months | 6 months       | 10 months      |                                                                                                                                                                                       |

**Other municipal financial viability and management performance related information is outlined below:**

**(a) Credit rating**

The Municipality's overall financial position is generally sound. This sound financial position is also evidenced by the favourable credit rating received of zaA for long-term and zaA1 for short-term, which indicates the strong capacity of the Municipality to repay both long-term and short-term liabilities.

**(b) Revenue enhancement**

The Municipality developed a Revenue Enhancement Master Plan, which is revised annually. The Plan provides an overall revenue enhancement and collection strategy over a three-year period. This has seen the continuous improvement in the revenue collection rate to 97%, which is in line with the target.

Furthermore, to achieve revenue enhancement, accurate and efficient billing as well as improved customer care, the Municipality has embarked on a process to develop a new billing system. This will be concluded by March 2008. The Municipality has also embarked on a General Property Valuation Process throughout Nelson Mandela Bay. This process will be concluded by June 2008 and take effect from 1 July 2008. New property rates will be levied, based on the new property valuations. The process of property valuation will also enable the Municipality to collect and capture consumer data that is currently not in the billing system, thereby further enhancing revenue collection and customer care.

**(c) Capital expenditure**

One of the major objectives of the Municipality is to improve on capital expenditure, which, at the end of the 2006/07 financial year, was 87,6% against a target of 95%. It must, however, be emphasised that an amount of R300 million more was spent during the 2006/07 financial year, than during the 2005/06 financial year. An intervention programme was developed to deal with capital expenditure, which is currently being implemented, focusing on the following:

- Proper forward planning to allow for timeous tendering and other processes.
- Establishment of a Budget Performance Monitoring Task Team.
- Inclusion of expenditure and financial related key performance indicators on the Municipal Manager and Executive Directors' performance agreements.
- Inclusion of a financial expenditure report as a standing item for the Management Team and Mayoral Committee meetings to enhance monitoring.
- Proper financial projections of month-by-month income and expenditure.

**KPA 3 : LOCAL ECONOMIC DEVELOPMENT**

**(a) Growth and Development Summit**

The Municipality hosted its landmark Growth and Development Summit on 29 March 2007 where, together with other social partners, pledges and commitments were made for the upliftment of the Nelson Mandela Bay area and beyond. The commitments made are currently being implemented. The Summit report also forms the basis of the current review of the Municipality's

Economic Growth and Development Strategy, as well as a long-term City-wide Development Strategy.

**(b) SMME and co-operative development**

Ten co-operatives and ten food gardens were established in line with the annual target, and are fully functional. Altogether 878 SMMEs were capacitated with business skills. Altogether 41% of local businesses were awarded contracts, well exceeding the target of 25%. Altogether 16,5% of tenders were awarded to women, against a target of 15%. The Municipality experienced challenges with regard to some categories, specifically the disabled and youth gaining access to municipal contracts. Various options are being pursued to improve on this.

**(c) Tourism**

The number of tourists visiting Nelson Mandela Bay continues to increase. This year, it increased by approximately 10%. To maximise the benefit derived from tourism, which is one of the key focus areas of the Municipality, a process has been put in place to review and rationalise the Nelson Mandela Bay Tourism Agency, thereby repositioning it to make a greater impact.

**(d) Coega IDZ and the Port of Ngqura**

The Coega IDZ and the Port of Ngqura are key anchor projects for Nelson Mandela Bay and the region as a whole. The Municipality is in partnership with the Coega Development Corporation and has concluded a comprehensive agreement providing, *inter alia*, for the provision of bulk infrastructure and services to the project. Intensive investment marketing by the Coega Development Corporation has already yielded substantial successes in investments, including anchor tenants in each zone.



## **KPA 4 : MUNICIPAL TRANSFORMATION AND ORGANISATIONAL DEVELOPMENT**

### **(a) Streamlining the institution for better service delivery**

The Municipality embarked on an organisational review and rationalisation process to ensure the development of an efficient and effective administration that is responsive to the needs and challenges confronting it. The overall objectives of the review are to:

- Identify operational shortcomings in the administration, including the following:
  - Duplication of functions
  - Overlapping of functions
  - Inappropriate splitting of functions
  - Lack of operational integration
  - Misplaced functions
  - The need to establish fully functional service delivery centres to improve access to service delivery in areas such as Uitenhage and Despatch.
- Streamline the span of control reporting to the Municipal Manager to enhance integration, co-ordination, management and oversight.
- Identify clear designations and reporting lines.
- Propose a revised organisational structure.

The exercise has several workstreams, as outlined below:

- Workstream 1: High-level rationalization; for instance, rationalisation of business units and offices into directorates.
- Workstream 2: Rationalisation within directorates.
- Workstream 3: Identification and elimination of overlapping/duplicated functions.

- Workstream 4: Identification and rectification of misplaced functions.
- Workstream 5: Establishment of service delivery centres (especially in Uitenhage and Despatch).
- Workstream 6: Development and implementation of a redefined service delivery model.

It is envisaged that the implementation of the workstreams may occur simultaneously and/or in a phased manner.

**(b) Review of systems**

Organisational review also necessitates the review of administrative systems and procedures as an ongoing process. Recent initiatives include the following:

- Workflow efficiencies

This includes the automation of manual processes, decision-making processes (Mayoral resolutions), the Query Management System, the computerisation of leave applications, as well as the early application of the Supply Chain Management System. The objective is to expedite service delivery by improving organisational efficiency and effectiveness, increasing the use of information and communication technology, and streamlining decision-making processes.

- Electronic Document Management System

This system manages the organisation's Paper Trail, and will in the long run reduce printing costs.

- Digitalisation of committees, including Mayoral and Standing Committees
- E-government

The Municipality has also embarked on an e-government programme aimed at increasing the use of information and communication technology. The e-government project has four components, namely Government to Citizen; Government to Government; Government to Business; and internal efficiency and effectiveness. This project saw the computerisation of six of the 22 municipal libraries, as well as twelve clinics, as a pilot project. The e-government project will be completed in June 2008.

With regard to ICT, the different platforms which supported the three erstwhile administrative units of Port Elizabeth, Uitenhage and Despatch are now fully merged and operating as one, enhancing integration. A revised ICT Transformation Plan is currently under scrutiny and undergoing stakeholder input.

Other key institutional development issues that are receiving attention include the following:

- A comprehensive Scarce Skills Audit and Implementation Plan.
- A new remuneration framework.
- Cascading the Performance Management System.
- Improving internal controls.
- Reviving the cluster system, to improve integration.
- A Customer Satisfaction Survey.

The above will be given special focus during the 2007/08 financial year.

**KPA 5 : GOOD GOVERNANCE AND PUBLIC PARTICIPATION****(a) Internal controls**

Emanating from the adverse audit opinion received for the 2005/06 financial year, the Municipality developed and implemented a comprehensive action plan to deal with areas of audit qualification and the emphasis of matter. This has resulted in a substantially improved audit opinion from the Auditor-General. The Municipality managed to reduce the areas of qualification from 12 qualifications in 2005/06 to 1 qualification in 2006/07 with the remaining cause of qualification being eliminated with the completion of the General Valuation.

The qualification relating to the 2006/07 financial year relates to the valuation of assets. A process has already been adopted to address this issue within the 2007/08 financial year. Refer to comments on the Audit report.

The Municipality has a functional Audit Division and Audit Committee to enhance internal controls. Furthermore, risk management plans were developed and implemented, and anti-fraud and anti-corruption measures were introduced in line with the anti-fraud and anti-corruption strategies of the Municipality, which includes the Anti-fraud Hotline (0800 20 43 43).

**(b) Public participation**

As part of initiatives to involve all sectors of the community in planning and municipal governance, the Municipality introduced the concept of ward-based planning. Members from municipal wards received training to be in a position to identify their needs and plan accordingly for submission to the Municipality, thereby informing the people's Integrated Development Plan and the Budget.

The Municipality also has a functional Ward Committee System in place. Altogether 300 Ward Committee meetings were held during the financial year. To complement the Ward Committee System, the political leadership of the Municipality undertook 55 outreach programmes thereby interacting with approximately over 8 000 residents.

The Municipality is considering ways of enhancing the activities of special sectors. This will be done through the appointment of special sector co-ordinators and the development of comprehensive development programmes during the 2007/08 financial year.

**(c) International and intergovernmental relations**

The Municipality continues to derive positive spin-offs through its international partnerships, as well as relationships with our neighbouring municipalities. In addition to our current partnerships with Ningbo, China; Jacksonville, Florida, USA; and Göteborg, Sweden, an additional partnership was concluded with Annaba, Algeria. Further partnerships are being pursued with Beira, Mozambique and Wakhinan Nimzath, Senegal.

In order to exchange knowledge, ideas and experiences, the Municipality continues to enjoy close working relations with other municipalities in the country, including neighbouring municipalities. In this regard, agreements were concluded with Nxuba and Cacadu municipalities. With the support of the German Agency for Technical Co-operation (GTZ), a number of projects will be identified for implementation between Cacadu and the Nelson Mandela Bay Municipality during the 2007/08 financial year.

**MOTHERWELL URBAN RENEWAL PROGRAMME**

Motherwell is one of the Presidential urban renewal nodes in the country. It has enjoyed considerable success in implementing key community projects, and the lessons that have been learned are being replicated in the Helenvale Urban Renewal Programme. This will be expanded to other areas. The Motherwell Urban Renewal Programme is implemented with community participation, taking full advantage of the functional community forum meetings held annually, of which twelve were held during the 2006/07 financial year.

The Motherwell Urban Renewal Programme is not treated as standing alone, but is included in the Municipality's IDP to enhance co-ordination and integration by different directorates within the Municipality. The national and provincial spheres of government also play an important role in the Motherwell Urban Renewal Programme. Furthermore, the European Union has also supported the programme.

During 2006/07, the following projects were completed:

| PROJECT                                                                    | R million |
|----------------------------------------------------------------------------|-----------|
| • Addo Road fencing (road safety), Phases 1 and 2                          | 3.5       |
| • Motherwell Cemetery roads paving, Phase 1                                | 1.75      |
| • Motherwell water meters project                                          | 7.1       |
| • Motherwell collector sewer                                               | 3.9       |
| • Motherwell main sewer augmentation (Tjoks)                               | 0.05      |
| • Motherwell Police Station                                                | 16.9      |
| • Bus embayments                                                           | 2.4       |
| • Motherwell NU 29 and 30 (main sewer)                                     | 5.7       |
| • Motherwell Branch Court                                                  | 25.1      |
| • Motherwell North pipeline                                                | 4.0       |
| • Motherwell NU1 Taxi Rank, Phase 1                                        | 2.9       |
| • Motherwell turning circles                                               | 1.9       |
| • Tjoksville roads and stormwater                                          | 16.5      |
| • Two car washes (NU 3 and NU9)                                            | 3.0       |
| • Video conferencing facility                                              | 0.08      |
| • Refurbishment of a computer laboratory at<br>Siyaphambili Primary School | 0.12      |

**Total value: R94 900 000**

|                |                                  |
|----------------|----------------------------------|
| <b>CHAPTER</b> | <b>HUMAN RESOURCES AND OTHER</b> |
| <b>3</b>       | <b>ORGANISATIONAL MANAGEMENT</b> |

The Municipality has a total workforce of 7 032 employees, of whom 6 417 are permanent and 615 temporary staff members. The personnel cost constitutes 29,40% of its total Operating Budget.

During the 2006/07 financial year, 37 unemployed graduates, 26 bursary students and 21 experiential training students received training in various fields.

Skills development for both employees and residents of Nelson Mandela Bay is critical and in line with the IDP. Altogether 41 employees are participating in the water purification, reticulation and waste water treatment learnership. Furthermore, 22 employees are participating in the Pharmacist Assistants learnership. Altogether sixty unemployed residents are participating in the emerging contractor (Vukuphile) learnership. This approach maximises human development and capacitates people for both present and future employment.

A total of 2 575 employees received training in the 2006/07 financial year, at a cost of R1 726 627.41.

The following table provides a breakdown of training beneficiaries:

| <b>OCCUPATIONAL GROUP</b>                  | <b>NUMBER</b> |
|--------------------------------------------|---------------|
| Leadership and governance                  | 602           |
| Senior officials and managers              | 72            |
| Professionals                              | 345           |
| Technicians and associate professionals    | 413           |
| Clerks                                     | 462           |
| Service workers                            | 209           |
| Agricultural and fishery workers           | 42            |
| Craft and related trade workers            | 214           |
| Plant and machine operators and assemblers | 89            |
| Labourers and related workers              | 127           |
|                                            | <b>2 575</b>  |

The Municipality's Capacity Development and Skills Development Programmes are NQF aligned. Currently, 61% of all senior managers are from the designated groups.

The Municipality values stability in the workplace and, through the Labour Forum, all labour-related issues are ironed out between the employer components and the labour components represented by the trade unions IMATU and SAMWU.

**The following table presents information on the pension funds in existence in Nelson Mandela Bay:**

|           | Number | Council contribution % | Defined benefits | Defined contribution |
|-----------|--------|------------------------|------------------|----------------------|
| SALA      | 3 078  | 18.07                  | 1 249            | 1 829                |
| CJRF/CJPF | 2 463  | 18                     | 125              | The rest             |
| SAMWU     | 108    | 18                     |                  | All                  |

No future risk, post-retirement has been budgeted for.

|                      |             |                                       |
|----------------------|-------------|---------------------------------------|
| Post-retirement Fund | 51 494 410  | budgeted annually<br>future liability |
|                      | 625 731 000 |                                       |

**The following table illustrates information on the medical aid schemes in operation in the Municipality:**

|               |           |
|---------------|-----------|
| LAMAF         | 2 301 754 |
| BONITAS       | 2 242 897 |
| HOSMED        | 450 465   |
| MUNIMED       | 679 427   |
| SAMWUMED      | 129 152   |
| GLOBAL HEALTH | 487 114   |

The amounts reflect Council's monthly portion of contribution.

**The following table illustrates trends in total personnel expenditure:**

|       | Personnel expenditure | Operating income   | %   |
|-------|-----------------------|--------------------|-----|
| 06/07 | 1 071 989 048.00      | 3 646 221 252.00 * | 29% |
| 05/06 | 962 143 399.00        | 3 086 406 967.00   | 31% |
| 04/05 | 817,512,342.00        | 2,920,504,109.00   | 28% |
| 03/04 | 773 807 939.00        | 2 763,214,676.00   | 28% |
| 02/03 | 702,958,809.00        | 2,427,096,782.00   | 29% |

\* Excluding Capital Grants and contributions and Housing top structures



| <b>BASIC REMUNERATION AS AT 30 JUNE 2007</b>     |                      |                         |
|--------------------------------------------------|----------------------|-------------------------|
| Item description                                 | Estimate             | Actual                  |
| Annual bonus                                     | 46,535,300           | 46,165,906.18           |
| Basic remuneration                               | 551,006,040          | 549,383,061.94          |
| Remuneration adjustments                         | 12,150,830           | 75,516.99               |
| Temporary assistance                             | 36,095,900           | 41,708,639.84           |
| Outside waterworks – Allowance                   | 0                    | 41,528.40               |
| Ward staff assistance                            | 1,598,000            | 1,500,747.69            |
| Seasonal staff                                   | 1,869,730            | 1,906,372.84            |
| Bargaining Council levy                          | 211,660              | 213,591.66              |
| Labour dispute settlements                       | 0                    | 40,181.31               |
| Provision for vacancies                          | 20,215,370           | 0                       |
| Contractual staff appointments – Section 57      | 11,297,190           | 8,714,108.77            |
| Temporary assistance: Improve revenue collection | 250,000              | 350,024.26              |
| Manpower restructuring                           | 36,647,350           | 30,814,794.93           |
| Commutation of leave                             | 976,700              | 72,532.18               |
| Leave pay on retirement                          | 1,617,000            | 4,651,165.07            |
| Contractual staff appointments – Other           | 15,892,110           | 15,601,712.61           |
| Cost of living allowance – Pensioners            | 3,830                |                         |
| First-aid allowance                              | 53,460               | 19,036.71               |
| Group Life Insurance                             | 6,348,450            | 4,733,263.92            |
| Locomotion – Fixed                               | 33,872,070           | 34,205,523.86           |
| Medical aid contributions                        | 68,055,710           | 73,407,113.80           |
| Pension fund contributions                       | 88,030,970           | 91,518,239.23           |
| Shift allowance                                  | 2,065,080            | 14,537.63               |
| Standby allowance                                | 3,590,360            | 3,322,393.02            |
| UIF and Workmen's Compensation contributions     | 7,815,720            | 8,924,283.42            |
| Cashiers' allowances                             | 20,000               | 13,626.07               |
| Education fees                                   | 301,000              | 131,340.94              |
| Entertainment allowance                          | 1,410                | 1,400.04                |
| Pension and lump sum payments                    | 16,251,350           | 16,862,581.91           |
| Special transport allowance                      | 14,080               | 14,222.53               |
| Skills development levy                          | 7,934,480            | 7,319,875.83            |
| Uniforms and clothing                            | 5,609,900            | 4,472,493.85            |
| Allowance (excess hours)                         | 1,371,310            | 2,023,527.14            |
| Telephone allowance                              | 72,960               | 63,363.46               |
| Retrenchment costs                               | 1,047,580            | 1,047,574.00            |
| Interest on personnel loans                      | 42,120               | 74,865.30               |
| Entertainment allowance                          | 8,070                | 8,050.08                |
| Transport allowances                             | 298,700              | 191,230.21              |
| Risk allowance                                   | 216,860              | 202,725.85              |
| Shift amount allowance                           | 364,310              | 1,681,278.60            |
| Professional allowance                           | 11,030               | -51,586.33              |
| Sundry allowances                                | 5,250                | 0                       |
| Gratuities on retirement                         | 316,550              | 2,736,479.94            |
| Housing subsidy                                  | 8,369,320            | 9,518,789.44            |
| Overtime                                         | 36,983,470           | 53,360,563.08           |
| Overtime (IVR)                                   | 33,390               |                         |
| Incentive bonus                                  | 11,657,940           | 10,988,723.28           |
| Long-service bonus                               | 15,552,370           | 15,547,008.17           |
| Executive Mayor                                  | 720,970              | 730,593.18              |
| Councillors                                      | 34,714,280           | 32,949,195.37           |
| Deputy Executive Mayor                           | 576,770              | 573,524.34              |
| Councillor telephone allowance                   | 1,116,830            | 1,082,628.00            |
| Salaries capitalised to PPE                      | 0                    | -6,939,302.78           |
| <b>TOTAL</b>                                     | <b>1,089,811,130</b> | <b>1,071,989,047.76</b> |

|         |          |                                             |
|---------|----------|---------------------------------------------|
| CHAPTER | <b>4</b> | <b>GRANTS AND ASSESSMENT OF<br/>ARREARS</b> |
|         |          |                                             |

#### 4.1 QUARTERLY INFORMATION ON GRANTS (2006/07 FINANCIAL YEAR)

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, NO. 56 OF 2003, FOR THE YEAR ENDED 30 JUNE 2007

| Name of grants                            | Quarterly receipts |             |             |            |                      | Quarterly expenditure |            |            |            |             |
|-------------------------------------------|--------------------|-------------|-------------|------------|----------------------|-----------------------|------------|------------|------------|-------------|
|                                           | July-Sept          | Oct-Dec     | Jan- Mar    | April-June | Total Funds Received | July-Sept             | Oct-Dec    | Jan- Mar   | April-June | Total Spent |
| Financial Management Grant                | 1,000,000          |             |             |            | 1,000,000            | 103,079               | 252,095    | 66,292     | 121,896    | 543,362     |
| National Electrification Programme        | 8,333,333          | 7,017,544   | 3,500,000   | 2,177,000  | 21,027,877           | 3,919,987             | 4,196,397  | 2,748,873  | 4,392,679  | 15,257,936  |
| Municipal Infrastructure Grant            | 37,000,000         | 19,000,000  | 56,666,667  | 19,590,614 | 132,257,281          | 29,154,180            | 19,044,739 | 10,128,591 | 11,921,098 | 70,248,608  |
| Restructuring Grant                       | 0                  | 25,000,000  |             |            | 25,000,000           | 7,487,062             | 8,838,662  | 6,591,281  | 30,943,508 | 53,860,513  |
| Equitable Share (excluding MURP)          | 157,347,596        | 118,417,604 | 196,180,093 |            | 471,945,293          | 35,060,206            | 44,652,481 | 40,493,976 | 38,734,972 | 158,941,635 |
| Effective Disaster Management             | 1,500,000          |             |             |            | 1,500,000            | 436,351               | 480,376    | 589447     | 653,628    | 2,159,802   |
| MSIG - Project Consolidate                | 2,000,000          | 2,000,000   |             |            | 4,000,000            | 1120699               | 809,078    | 14,410     | 1,672,620  | 3,616,807   |
| World Cup Soccer (Construction of Stadia) |                    |             | 110,086,628 |            | 110,086,628          |                       |            | 36,258,655 | 73,547,340 | 109,805,995 |
| World Cup Soccer (Transport or PTIF)      | 30,000,000         |             | 38,600,000  | 0          | 68,600,000           | 781212                | 2,118,922  | 9,551,782  | 27,103,305 | 39,555,221  |
| Motherwell Urban Renewal Programme        | 5,175,370          | 3,450,247   | 6,900,494   |            | 15,526,111           | 2,222,967             | 2,566,270  | 1,802,375  | 3,106,502  | 9,698,114   |

## **4.2 ASSESSMENT OF ARREARS**

The Council's revenue collection rate has showed an improvement over recent years, increasing from 89% in 2002/03 to 97% at the end of June 2007.

The Municipality introduced a number of intervention programmes to enhance revenue collection. These include the following:

- Enforcement of the Council's debt collection and suspension of services
- Short-term arrangements
- Water flow restrictors
- Allocation of prepaid purchases towards other debts
- Stop/Debit order arrangements
- Conversion to prepaid metering systems
- Collection of outstanding monies from municipal Councillors and officials
- Clearance of arrears by service providers that have been awarded tenders

Whilst the Municipality restricts the services of defaulters, it also provides poor indigent households with free basic services, as mentioned in Chapter 2.

The Municipality had a provision for doubtful debts of R602 million as at 30 June 2007, compared to the total outstanding debtor's accounts of R1.193 billion. The provision (approximately 50% of outstanding debtors) is considered to be adequate to cover any uncollectable debts.

# **ANNEXURE “A”**

## **FINANCIAL INFORMATION**

**“A1”**

**REPORT OF THE  
AUDITOR GENERAL**

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL AND  
EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL  
STATEMENTS AND PERFORMANCE INFORMATION OF THE NELSON  
MANDELA BAY METROPOLITAN MUNICIPALITY FOR THE YEAR  
ENDED 30 JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Nelson Mandela Bay Metropolitan Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 89 to 167.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy Note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  - Selecting and applying appropriate accounting policies.
  - Making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by Section 188 of the Constitution of the Republic of South Africa, 1996, read with Section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.
6. An audit also includes evaluating the:
  - Appropriateness of accounting policies used.
  - Reasonableness of accounting estimates made by management.
  - Overall presentation of the financial statements.
7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by the Nelson Mandela Bay Metropolitan Municipality

in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

9. The Municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

#### **Basis for qualified opinion**

##### **Property, plant and equipment**

10. Property, plant and equipment amounted to R4 billion as disclosed in the statement of financial position. As a result of the circumstances detailed below, the extent to which property, plant and equipment may be misstated could not be determined.
11. The Municipality embarked on an exercise to physically identify all items of property, plant and equipment during the 2005-06 and 2006-07 financial years, including all land and buildings, infrastructural and movable assets.
12. However, all land identified during the verification process has been recorded at a nil value and is still to be valued. Generally Accepted Municipal Accounting Practice (GAMAP) 17 on Property, plant and equipment, paragraph 25, requires that where an item of property, plant and equipment is acquired at no cost, it should initially be recognised at its fair value. The Municipality will only determine the valuation of all land within the next financial year, as part of the municipal property valuations to be conducted in terms of the Property Rates Act, 2004 (Act No. 6 of 2004).



## **Opinion**

13. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Nelson Mandela Bay Metropolitan Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy Note 1 and in the manner required by the MFMA.

## **OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in auditing the financial statements:

### **Non-compliance with applicable legislation**

#### **Basic Conditions of Employment Act**

14. Instances were identified where municipal employees were required to work more than ten hours overtime a week without an agreement to this effect entered into between Council and the employees as required by Section 10(1) and 10(1A) of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997).

### **Matters of governance**

#### **Internal audit**

15. The Internal Audit Division did not attend to all the matters contained in their audit plan. Deviations from the audit plan resulted in not all planned audits being conducted or completed.

The following are some of the processes planned to be audited, but which did not receive the attention as anticipated:

- (a) Recovery of debtors
- (b) Compliance with the Division of Revenue Act
- (c) Procurement and tenders (5% of time allocated utilised)
- (d) Low-cost housing
- (e) Human resources provision and support services

### **Material corrections made to financial statements submitted for audit**

The financial statements, approved by the accounting officer and submitted for audit on 31 August 2007, have been significantly revised in respect of the following adjustments that came to my attention during the conduct of the audit:

#### **16.1 Adjustments made to Note 3: Non-current provisions**

- (a) The provision for post-retirement benefits as disclosed in the statement of financial position has been adjusted to bring the provision in line with a recent actuarial valuation resulting in an increase of R120 million to non-current provisions and a decrease to the accumulated surplus .
- (b) The provision for the rehabilitation of landfill sites initially included only two of the three landfill sites and was also not discounted to present value. This resulted in a net increase of R4.6 million to non-current provisions and a decrease of the same amount to the accumulated surplus. The following significant adjustments were made to the provision for rehabilitation of the individual landfill sites.
  - (i) Ibhayi – An amount of R44 million provided
  - (ii) Arlington – Provision reduced by R30.5 million after discounting provision originally disclosed.
  - (iii) Koedoeskloof - Provision reduced by R8.9 million after discounting provision originally disclosed.

## 16.2 Changes to disclosure notes

### 16.2.1 Changes made to Note 32 - Capital commitments

Capital commitments approved but not yet contracted for have been adjusted by an amount of R357 million. This is due to the relevant supporting schedules not being correctly updated.

### 16.2.2 Changes made to Note 39 – Contingent liabilities

- (a) A tender received in respect of a loan facility to the amount of R300 million was initially disclosed as a contingent liability. This was subsequently removed from note 39.
- (b) Contingent liabilities amounting to R25 million have been added to the liabilities as originally disclosed in the financial statements, as further updated information was obtained.

## Internal control

17. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control.

| Reporting item                                      | Control environment | Assessment of risks | Control activities | Information and communication | Monitoring |
|-----------------------------------------------------|---------------------|---------------------|--------------------|-------------------------------|------------|
| <b>Basis for qualification of opinion</b>           |                     |                     |                    |                               |            |
| Property, plant and equipment                       |                     | ✓ <sup>1</sup>      |                    |                               |            |
| <b>Other matters</b>                                |                     |                     |                    |                               |            |
| Non-compliance with applicable laws and regulations |                     |                     | ✓                  |                               | ✓          |
| Matters of governance                               | ✓                   |                     |                    |                               | ✓          |

<sup>1</sup> The Municipality had accepted the risk of not valuing its property, plant and equipment by planning for such a valuation in the next financial year.

| Reporting item                                   | Control environment | Assessment of risks | Control activities | Information and communication | Monitoring |
|--------------------------------------------------|---------------------|---------------------|--------------------|-------------------------------|------------|
| Material corrections to the financial statements |                     |                     |                    |                               | ✓          |

### Control environment

18. The Municipality did not establish all the key elements of a control environment relating to the internal audit process (as reported above).

### Control activities

19. Control activities over business and accountancy processes were not effective in all instances. This is evident from the matters reported to management relating to non-compliance with relevant laws and regulations, human resource administration and inventory.

### Monitoring

20. The monitoring of controls, such as the internal audit process (as reported above), was not effective in all instances. This contributed to the audit findings relating to corrections required to the financial statements as reported above, as well as matters reported to management during the course of the audit relating to non-compliance with the Basic Conditions of Employment Act (reported above), the management of vehicles, the tender process and housing contracts administration.

### Investigations completed

21. The following investigations have been conducted by the Internal Audit Division:
- (a) Investigation of alleged irregularities regarding the awarding of a tender for soil laboratory material testing to a firm that had not scored the highest tender points.
  - (b) Investigation of alleged misrepresentation of sick leave by an employee. The employee conducted private business during this period, earning a second income.

- (c) Investigation into the alleged breach of a lease agreement – No. 7 Miramar Flats.

Further to the above, I draw your attention to the investigations as disclosed in Note 38 to the financial statements.

### **Unaudited supplementary schedules**

22. The supplementary schedules set out on pages 168 to 202 do not form part of the financial statements and are presented for additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

### **OTHER REPORTING RESPONSIBILITIES**

#### **Reporting on performance information**

23. I have audited the performance information as set out on pages 13 to 35.

#### **Responsibilities of the accounting officer**

24. In terms of Section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of Section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### **Responsibility of the Auditor-General**

25. I conducted my engagement in accordance with Section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice No. 646 of 2007* and Section 45 of the MSA.

26. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

**Audit findings**

28. No significant findings were identified as a result of my audit.

**APPRECIATION**

29. The assistance rendered by the staff of the Nelson Mandela Bay Metropolitan Municipality during the audit is sincerely appreciated.

*Auditor-General*

Pretoria

12 December 2007



AUDITOR - GENERAL

**“A2”**

**RESPONSES TO THE  
AUDITOR-GENERAL'S  
REPORT**

## **ACCOUNTING OFFICER'S RESPONSE TO THE AUDIT REPORT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2007**

### **INTRODUCTION**

In terms of Section 126(3)(b) Act 56/2003, the Auditor General is obliged to submit an audit report on the financial statements submitted by the Accounting Officer. The Auditor General has seen fit to submit that report "to the Council and Eastern Cape Provincial Legislature", the latter having no statutory oversight responsibility in the matter. Notwithstanding the failure by the Auditor General to comply with the MFMA, the Accounting Officer submits the following comments. The paragraph references are to those in the audit report.

### **BASIS FOR QUALIFIED OPINION**

#### **Property, Plant and Equipment**

12. The valuation of land will be determined, as part and parcel of the current municipal property valuation process being undertaken in terms of a Council resolution. The Council considered it financially prudent to undertake land valuation, in conjunction with the property valuation process.

### **OTHER MATTERS**

#### **Non-Compliance with Applicable Legislation**

#### **14. Basic Conditions of Employment Act**

The necessary agreements are being concluded.



**Matters of Governance****15. Internal Audit**

The audit plan for the 2006/07 financial year was not fully implemented, *inter alia* as a result of attending to urgent forensic investigations.

The areas of focus, as highlighted by the Auditor-General, will be covered in the 2007/08 financial year. In order to facilitate the effective implementation of the 2007/08 audit plan, specialised services will be contracted in, to assist with implementation, where deemed necessary.

**Material corrections made to financial statements submitted for audit****16.1 Adjustments made to Note 3: Non-current provisions**

- (a) The adjustment was necessitated as a result of a review of the actuarial valuation of post-retirement benefits.
- (b) The comments are noted.

**16.2 Changes to disclosure notes****16.2.1 Changes made to Note 32 – Capital commitments**

The comments are noted.

**16.2.2 Changes made to Note 39 – Contingent liabilities**

- (a) The Tender was approved at the Adjudication Committee on 8 May 2007 and the Tenderer withdrew their offer on 14 September 2007, when they realised that the rate they quoted would not be in their best interest.
- (b) The comments are noted.

**Control Environment**

18. The comment is noted.

**Control Activities**

19. The necessary corrective measures will be implemented.

**Monitoring**

20. The necessary corrective measures will be implemented.

**Investigations in progress or completed**

21. The comments are noted.

**OTHER REPORTING RESPONSIBILITIES****Reporting on Performance Information****Audit Findings**

28. The comments are noted.

**“A3”**

**REPORT OF THE AUDIT  
COMMITTEE**

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY - ANNUAL  
REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR  
ENDED 30 JUNE 2007**

**Audit Committee members and attendance**

The Audit Committee has adopted appropriate formal terms of reference and consists of three independent external members, as listed below.

The Audit Committee meets at least four times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises.

During the 2006/2007 financial year, four meetings were held.

| <b>Name of member attended</b> | <b>Number of meetings</b> |
|--------------------------------|---------------------------|
| SG Zamisa (chairman)           | 4                         |
| Prof. D. Rosenberg             | 4                         |
| Ms R. Shaw                     | 4                         |

**Audit Committee responsibilities**

The Committee reports that it has complied, as far as possible with its responsibilities set out in its Council-approved terms of reference and in line with relevant legislation requirements.

**Review of annual financial statements**

The Audit Committee has noted the qualified opinion expressed by the Auditor-General on the annual financial statements of the Nelson Mandela Bay Metropolitan Municipality. The basis for the qualified opinion is non-compliance with Generally Accepted Municipal Accounts Practices (GAMAP)

17. Paragraph 25 of GAMAP requires that where an item of property, plant and equipment is acquired at no cost, it should initially be recognized at its fair value.

During the 2005/2006 and 2006/2007 financial years, the Municipality embarked on an exercise to physically identify all items of property, plant and equipment, including all land and buildings, infrastructural and movable assets.

All land identified during the verification process was recorded at nil value by the Municipality. As a result of this non-compliance, the Auditor-General was not able to determine the extent to which property, plant and equipment may have been be misstated.

The Audit Committee is encouraged by the Municipality's plans and commitment to address this finding in the next financial year. The Audit Committee has also noted other matters in the Auditor-General's report pertaining to non-compliance with the Basic Condition of Employment Act; matters of governance within the Internal Audit Division; material corrections made to financial statements; as well as internal control and control activities.

Whilst it is acknowledged that there is great improvement from the previous financial year, the accounting officer of the metro must not relent in his efforts to improve and maintain effective efficient and transparent systems of financial and risk management and internal controls as required by Section 62(1)(c)(i) of the MFMA.

To this end, the Audit Committee recommends that the Internal Audit Division should set itself a realistic and achievable audit plan that is in line with current resources and capacity and also with identified high-risk and high-impact areas in municipal divisions. In addition, the full implementation of an efficient Performance Management System at all levels will also be critical in maintaining effective internal controls and risk management within these divisions.

The Audit Committee is confident that the Accounting Officer of the Municipality is adequately dealing with all the specific findings described in the other matters by the Auditor-General.

### **Review of annual financial statements of municipal entities**

#### **Centenary Hall Promotions:**

The Audit Committee has noted with concern the disclaimer of opinion by the Auditor-General on the annual financial statements of the Centenary Hall Promotions.

The basis for the disclaimer of opinion was that the Auditor-General was unable to obtain sufficient and appropriate evidence to provide a basis for an audit opinion. The Audit Committee noted the following areas as providing limitation of scope for the Auditor-General to express an opinion on the financial statements:

- Cash and equivalents
- Trade and other receivables
- Trade and other payables
- Income statement expenses
- Revenue
- VAT on income received

The Audit Committee, whilst concerned about the financial position of this entity of the Municipality during the current year under review, is not convinced that this is not a reflection on the general financial position and financial management within the Municipality. The Audit Committee recommends that a review of the management and organizational structure of the Centenary Hall Promotions be undertaken in order to effect tighter financial reporting and financial management controls within this entity and turn the situation around to achieve full compliance in the next financial year.

The Audit Committee has also noted various other matters raised by the Auditor- General. It is anticipated that the concerns raised in that regard will also be addressed adequately by the Municipality's accounting officer in the plan of action to achieve full compliance with the MFMA and other applicable legislation.

### **Feather Market Promotions**

The Audit Committee has noted the qualified opinion expressed by the Auditor General on the financial statements of the Feather Market Promotions. The basis of the qualified opinion is the limitation of scope on property, plant and equipment as required by IAS 16: property, plant and equipment. The other basis of the qualified opinion is the VAT on grants. Except for the issues on which a qualified opinion was expressed in the Auditor-General's report, the financial statements in all material respects presented the financial position of the Feather Market Promotions fairly.

The Audit Committee is satisfied with the financial position of the entity, its efficiency and effectiveness, and its overall compliance with the MFMA and other applicable legislation.

### **Mandela Bay Development Agency**

The Audit Committee has noted that the financial statements of the MBDA in all material respects present the financial position of the MBDA and its financial performance and cash flows for the year ended 30 June 2007 fairly, in accordance with the basis of accounting determined by National Treasury, MFMA and the Companies Act.

The Audit Committee is also confident that efficient and effective internal financial control and internal audit processes are in place at the MBDA.

**Conclusion**

The Audit Committee, except for the concerns expressed on the disclaimer of opinion on the financial statements of the Centenary Hall Promotions, accepts the conclusions of the Auditor- General on the annual financial statements for the year ended 30 June 2007 and recommends that the audited financial statements be adopted by the municipal Council.

**Appreciation**

On behalf of the Audit Committee, I would like to extend sincere appreciation to the municipal staff and the Office of the Auditor-General for their assistance and support during the financial year under review.

**SG Zamisa**  
**Chairperson**

**Date: January 2008**



**“A4”**

REPORT ON THE FINANCIAL  
STATEMENTS FOR THE  
FINANCIAL YEAR  
1 JULY 2006 TO 30 JUNE 2007

## **PERFORMANCE OVERVIEW**

Below is a brief performance overview comparing the financial results with the financial targets:

|                                                               | 2006/07       | 2005/06       |               |
|---------------------------------------------------------------|---------------|---------------|---------------|
| <b>Operational Performance</b>                                | <b>Actual</b> | <b>Actual</b> | <b>Target</b> |
| • Actual operating expenditure to budget                      | 136,0%        | 101,7%        | 99%           |
| • Actual operating income to budget                           | 151,4%        | 104,2%        | 99%           |
| • Capital spending to budget                                  | 87,6%         | 87,3%         | 90%           |
| • Personnel Costs to income                                   | 29,4%         | 31,2%         | 30%           |
| • Repairs and Maintenance as % of total Operating Expenditure | 7,2%          | 8,2%          | 9%            |
| • Capital charges to Annual Operating Income                  | 5,1%          | 7,0%          | 5.8%          |
| • Net Debtors to Annual Operating Income                      | 12,4%         | 18,6%         | 16%           |
| • Loan Debt to Income Ratio                                   | 4,5%          | 14,9%         | 22%           |
| <b>Liquidity</b>                                              |               |               |               |
| • Debtors collection period (days)                            | 199           | 208           | 55            |
| • Debtors Collection Ratio                                    | 97%           | 97%           | 100%          |
| • Ratio of outstanding debtors to revenue                     | 25,0          | 37,7          | 15            |
| • Creditors Turnover (days)                                   | 55            | 57            | 45            |
| <b>Financial Structuring</b>                                  |               |               |               |
| • Cost coverage <sup>2</sup>                                  | 10            | 10            | 6             |

---

<sup>2</sup> Cost coverage is determined as follows:  
Available cash plus investments divided by monthly fixed operating expenditure, such as personnel costs, purchase of power, etc.

## **1. INTRODUCTION**

It is a privilege for the accounting officer to present the report on the financial results of the Nelson Mandela Bay Metropolitan Municipality for the financial year ended 30 June 2007.

It should be noted that the Municipality is serving as a pilot site in National Treasury's Local Government Budgeting and Financial Management Reform Programme. The Municipality, being a pilot site, is required to implement Generally Recognised Accounting Practice (GRAP). Accordingly, the financial statements for the year ended 30 June 2007 have been prepared in the GRAP format, whilst complying with the exemptions to the Accounting Standards as indicated in Government Gazette No. 30013.

The report firstly deals with Key Financial Ratios and Statistics, Capital Expenditure, the overall Operating Results, the Balance Sheet, and other Reserves and Special Funds. It concludes with a brief summary of the overall results.

### **1.1 KEY FINANCIAL RATIOS AND STATISTICS**

This section provides an overview of ratios relevant to income and expenditure, the statement of financial position, the cash flow statement and the performance statistics of the Municipality's services.

### **1.2 INCOME AND EXPENDITURE**

|                              | <b>2006/07</b> | <b>2005/06</b> |
|------------------------------|----------------|----------------|
| <b>1.2.1 Personnel Costs</b> | <b>29.4%</b>   | <b>31.2%</b>   |

Personnel cost to income percentage expresses this category of expenditure as a percentage of total income. It reflects the expenditure trends relative to the previous year and indicates whether the control exercised over this expenditure category is reflected in the final results.

### **1.3 STATEMENT OF FINANCIAL POSITION**

The ratios in this section reflect that the Municipality is financially strong and well managed.

|                                                       | <b>2006/07</b> | <b>2005/06</b> |
|-------------------------------------------------------|----------------|----------------|
| <b>1.3.1 Turnover Rate of Consumer Debtors (days)</b> | <b>199</b>     | <b>208</b>     |

This ratio measures the efficiency with which the Municipality collects its outstanding debt and converts it back into cash.

More efficient collection of outstanding debtors has resulted in a reduction in this ratio.

|                                                                          | <b>2006/07</b> | <b>2005/06</b> |
|--------------------------------------------------------------------------|----------------|----------------|
| <b>1.3.2 Consumer Deposits in relation to Consumer Debtors (in days)</b> | <b>26,48</b>   | <b>24,36</b>   |

Consumer deposits are kept as a security against non-payment by debtors. This ratio reflects how many days of outstanding consumer debtors are covered by cash held as deposits.

The year-on-year movement shows an improved position, with 26,5 days of outstanding debtors covered by security deposits.

### **1.4 CASH FLOW STATEMENT**

|                                        | <b>2006/07</b> | <b>2005/06</b> |
|----------------------------------------|----------------|----------------|
| <b>1.4.1 Cash to interest coverage</b> | <b>36:1</b>    | <b>20:1</b>    |

This ratio depicts whether the Municipality generates sufficient cash from ordinary operations to meet its interest commitments. It shows the number of times the outflow of cash in respect of interest on loans are covered by cash generated from operations.

The year-on-year comparison indicates that the Municipality has an improved ratio, which is due to lower interest charges being paid on loans.

|                                          |                |                |
|------------------------------------------|----------------|----------------|
|                                          | <b>2006/07</b> | <b>2005/06</b> |
| <b>1.4.2 Loan debt to cash (in days)</b> | <b>89</b>      | <b>388</b>     |

This ratio indicates how long it will take the municipality to redeem its loan debt from the cash generated from its operations.

The year-on-year comparison reflects a significant improvement in this ratio, indicative of the improvement in cash generated, as well as the reduction in loan debt.

## **2. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

### **2.1 CAPITAL EXPENDITURE**

Capital expenditure incurred during the 2006/07 financial year, compared with the amended budget, is as follows:

| <b>Directorate</b>                            | <b>Amended<br/>Budget</b> | <b>Actual<br/>Expenditure</b> | <b>Variance with<br/>Amended<br/>Budget<br/>{over/(under)}</b> |
|-----------------------------------------------|---------------------------|-------------------------------|----------------------------------------------------------------|
|                                               | <b>R</b>                  | <b>R</b>                      | <b>R</b>                                                       |
| Infrastructure and Engineering                | 234 663 820               | 218 209 919                   | (16 453 901)                                                   |
| Housing and Land                              | 25 046 700                | 19 818 030                    | (5 228 670)                                                    |
| Recreational and Cultural Services            | 27 294 380                | 17 450 126                    | (9 844 254)                                                    |
| Safety and Security                           | 24 079 980                | 22 119 154                    | (1 960 826)                                                    |
| Economic Development, Tourism and Agriculture | 34 993 000                | 20 859 466                    | (14 133 534)                                                   |
| Corporate Administration                      | 35 779 560                | 21 620 957                    | (14 158 603)                                                   |
| Budget and Treasury                           | 99 358 700                | 72 084 574                    | (27 274 126)                                                   |
| Constituency Co-ordinator                     | 2 700 000                 | 664 229                       | (2 035 771)                                                    |
| Health                                        | 16 547 350                | 2 703 236                     | (13 844 114)                                                   |
| Environment and Waste Management              | 34 953 230                | 32 824 453                    | (2 128 777)                                                    |
| Sanitation                                    | 119 756 920               | 110 346 388                   | (9 410 532)                                                    |
| Water                                         | 84 278 500                | 77 896 606                    | (6 381 894)                                                    |
| Electricity and Energy                        | 206 702 000               | 197 857 104                   | (8 844 896)                                                    |
| Municipal Manager                             | 148 860 000               | 156 947 181                   | 8 087 181                                                      |
| Motherwell Urban Renewal Programme (MURP)     | 18 189 280                | 3 942 488                     | (14 246 792)                                                   |
|                                               | <b>1 113 203 420</b>      | <b>975 343 911</b>            | <b>137 859 509</b>                                             |

It should be noted that compared to the 2006/07 amended Capital Budget, the actual expenditure amounted to 87,6% of the amended Budget.

The main reasons for variations compared to the amended budget in respect of Directorates that did not achieve a 90% spending rate, are the following:

#### **2.1.1 Infrastructure and Engineering – Rate and General (over/(under))**

- Eveready Road Reconstruction (R728 720)  
The initial consultant's contract was terminated due to non-performance and a new consultant appointed, which resulted in a delay in the progress on this project.
  - Traffic Improvements:  
NU2 Kragga Kamma Interchange (R600 000)  
A delay in the Environmental Impact Assessment (EIA) and the negotiations with the relevant property owners taking longer than anticipated resulted in a delay in the progress on this project.
- (over/(under))**
- Realignment: Brak River: KwaNobuhle (R1 612 0000)  
Tender prices received were higher than anticipated, with the result that alternative designs had to be considered.
- (R2 940 720)**

#### **2.1.2 Economic Development, Tourism and Agriculture**

- Auto Cluster (UDDI) Logistics Park (R12 874 670)  
R10 million grant from the Department of Economic Affairs, Environment and Tourism (DEAET) was received late in the financial year.

- Rehabilitation and Improvement of Market Building (R590 000)  
Tenders were advertised twice, but no contractors  
Tendered.

---

**(R13 464 670)**

### **2.1.3 Budget and Treasury**

- General Valuation Project (R13 651 449)  
Delayed implementation of project resulted in  
underspending. In accordance with a Council  
decision, the funding for this project has been  
ringfenced from the Restructuring Grant.

- New Billing System (R12 826 340)  
This project was slightly behind schedule,  
but will be completed during the 2007/08  
financial year.

---

**(R26 477 789)**

### **2.1.4 Constituency Co-ordinator**

- Office Accommodation – Ward Councillor (R2 035 771)  
Identification of appropriate sites was a  
challenge and therefore construction could not  
commence.

### **2.1.5 Health**

- Construction of Type C3/D Clinic: New Development  
Area 12 Motherwell (R2 500 000)

(over/(under))

The anticipated Municipal Infrastructure Grant (MIG) funding did not materialise.

- Construction of new Community Health Centre at Walmer (R9 303 985)

Initially a shortfall in the budgetary provision delayed the award of the contract.

Council approved additional funding for the project on 30 May 2007.

---

**(R11 803 985)**

#### **2.1.6 Recreation, Arts and Culture**

- Disabled facilities (R431 543)  
Equipment was ordered from overseas and not delivered as at year-end.
- Upgrade KwaDwesi Sports Field (R992 082)  
The Contractor was only appointed in 2007/08 due to previous tenderers not possessing the required Construction Industry Development Board (CIDB) grading.
- Mendi Road Bottle Store Development (R1 995 540)  
Construction can only commence once the agreement between Province and the Municipality has been signed.
- Arts Centre – Despatch Craft Centre (R2 000 000)  
Awaiting R300 000 commitment from Province.  
Only received verbal commitment to-date.

---

**(R5 419 165)**



### 2.1.7 Corporate Administration

- Computer enhancements – Corporate (R1 119 171)

Tender prices were much lower than the budgeted provision, which resulted in the underexpenditure.
- Alterations and additions to Kabah Langa Hall (R4 225 145)

The Adjudication Committee recommended the appointment of a contractor who did not have the necessary grading and safety certificates at the time. The contractor was given a period of time to obtain the necessary grading and safety certificates, which caused a delay in the commencement of this project.
- (over/(under))

• ICT Strategy/Data Warehouse/System Alignment (R1 331 250)

Tender prices came in much lower than the budgeted provision, which resulted in the underexpenditure.
- Switchboard NMBM (R1 660 000)

Equipment was not delivered as at financial year end.
- Upgrading of NU 30 Hall in Motherwell (R1 693 195)

As a result of the contract prices being higher than the budgeted provision, additional funding had to be sourced before the contract could be awarded. This resulted in a time delay which caused underexpenditure.

---

**(R10 028 761)**

### 2.1.8 Motherwell Urban Renewal (MURP)

- Xhosa Village (R8 857 431)

The initial scope of the project was beyond the budget allocation. The scope of the project is currently being re-assessed.

- Helenvale Development (R1 958 183)

Due to a delay in the appointment of a project manager, the implementation of the project was delayed.

---

**(R10 815 614)**

## 2.2 Capital Financing

The 2006/07 Capital Expenditure was financed as follows:

|                                             |                             |
|---------------------------------------------|-----------------------------|
| Capital Replacement Reserve (CRR)           | 323 230 530                 |
| Replacement Levies Grant                    | 111 926 547                 |
| External Finance Fund                       | 127 557 429                 |
| Restructuring Grant                         | 84 115 358                  |
| Equitable Share                             | 13 489 375                  |
| Grants and Subsidies – State                | 204 452 513                 |
| Grants and Subsidies – Province             | 16 004 669                  |
| Grants and Subsidies – Other                | 1 022 927                   |
| Contributions from Current Income           | 1 380 000                   |
| Public Contributions                        | 7 886 160                   |
| Swedish Grant                               | 1 850 679                   |
| Consolidated Municipal Infrastructure Grant | 68 732 462                  |
| Department of Mineral and Energy            | 13 965 104                  |
| Contributions to Capital                    | 30 159                      |
| <b>TOTAL</b>                                | <b><u>R 975 343 911</u></b> |

### 3. OPERATING RESULTS

The summarised operating results as at 30 June 2007 are as follows:

|                                                        | 2006                 | 2007                 |                      |                       | 2006 to 2007<br>Growth |
|--------------------------------------------------------|----------------------|----------------------|----------------------|-----------------------|------------------------|
|                                                        | Actual<br>R          | Actual<br>R          | Budget<br>R          | Variance<br>R         |                        |
| <b>REVENUE</b>                                         |                      |                      |                      |                       |                        |
| Property rates                                         | 498 866 544          | 533 190 364          | 541 872 790          | 8 682 426             | 6.9%                   |
| Service Charges                                        | 1 573 735 823        | 1 653 138 228        | 1 636 668 000        | -16 470 228           | 5.0%                   |
| Regional Services Levies - turnover                    | 68 692 001           | 0                    | 0                    | 0                     |                        |
| Regional Services Levies - remuneration                | 211 586 760          | 0                    | 0                    | 0                     |                        |
| Interest earned - external investments                 | 124 734 548          | 141 611 910          | 134 951 780          | -6 660 130            | 13.5%                  |
| Interest earned - outstanding debtors                  | 78 360 901           | 77 367 969           | 55 710 000           | -21 657 969           | -1.3%                  |
| Fines                                                  | 13 227 218           | 17 368 619           | 21 666 190           | 4 297 571             | 31.3%                  |
| Licences and Permits                                   | 57 508 895           | 6 409 122            | 6 371 520            | -37 602               | -88.9%                 |
| Government Grants and Subsidies                        | 521 589 499          | 1 251 855 724        | 567 391 660          | -684 464 064          | 140.0%                 |
| Other Income                                           | 139 682 627          | 218 536 032          | 183 111 040          | -35 424 992           | 56.5%                  |
| Gains on the disposal of property, plant and equipment | 912 465              | 593 785              | 21 300               | -572 485              | -34.9%                 |
| Contributions: Other                                   | 257 455 700          | 877 738 543          | 6 246 030            | -871 492 513          | 240.9%                 |
| <b>Total Revenue</b>                                   | <b>3 546 352 981</b> | <b>4 777 810 296</b> | <b>3 154 010 310</b> | <b>-1 623 799 986</b> | <b>34.7%</b>           |
| <b>EXPENDITURE</b>                                     |                      |                      |                      |                       |                        |
| Employee related costs                                 | 932 818 668          | 1 036 653 107        | 1 025 708 420        | -10 944 687           | 11.1%                  |
| Remuneration of Councillors                            | 29 324 731           | 35 335 941           | 37 128 850           | 1 792 909             | 20.5%                  |
| Bad debts                                              | 7 926 420            | 19 604 983           | 2 134 700            | -17 470 283           | 147.3%                 |
| Collection costs                                       | 1 949 931            | 2 061 166            | 2 177 030            | 115 864               | 5.7%                   |
| Depreciation                                           | 192 016 619          | 266 587 719          | 212 002 090          | -54 585 629           | 38.8%                  |
| Repairs and Maintenance                                | 257 732 667          | 307 142 106          | 278 089 900          | -29 052 206           | 19.2%                  |
| Interest paid                                          | 27 252 118           | 24 183 338           | 28 430 730           | 4 247 392             | -11.3%                 |
| Bulk purchases                                         | 601 176 927          | 666 322 864          | 676 654 920          | 10 332 056            | 10.8%                  |
| Grants and subsidies paid                              | 41 108 313           | 42 970 595           | 13 507 790           | -29 462 805           | 4.5%                   |
| General Expenses                                       | 551 599 188          | 629 994 135          | 351 614 840          | -278 379 295          | 14.2%                  |
| Contributions To/(From) Provisions                     | 468 759 830          | 1 259 785 578        | 526 561 040          | -733 224 538          | 168.7%                 |
| <b>Total Expenditure</b>                               | <b>3 111 665 412</b> | <b>4 290 641 532</b> | <b>3 154 010 310</b> | <b>-1 136 631 222</b> | <b>37.9%</b>           |
| <b>Surplus for the year</b>                            | <b>434 687 569</b>   | <b>487 168 764</b>   | <b>-</b>             |                       |                        |
| Statement of Changes in Net Assets                     | 780 121 235          | -751 575 165         |                      |                       |                        |
| Net results for the year                               | 1 214 808 804        | -264 406 401         |                      |                       |                        |
| Accumulated Surplus at beginning of year               | 72 298 053.00        | 1 287 106 857        |                      |                       |                        |
| Accumulated Surplus at end of year                     | 1 287 106 857        | 1 022 700 456        |                      |                       |                        |

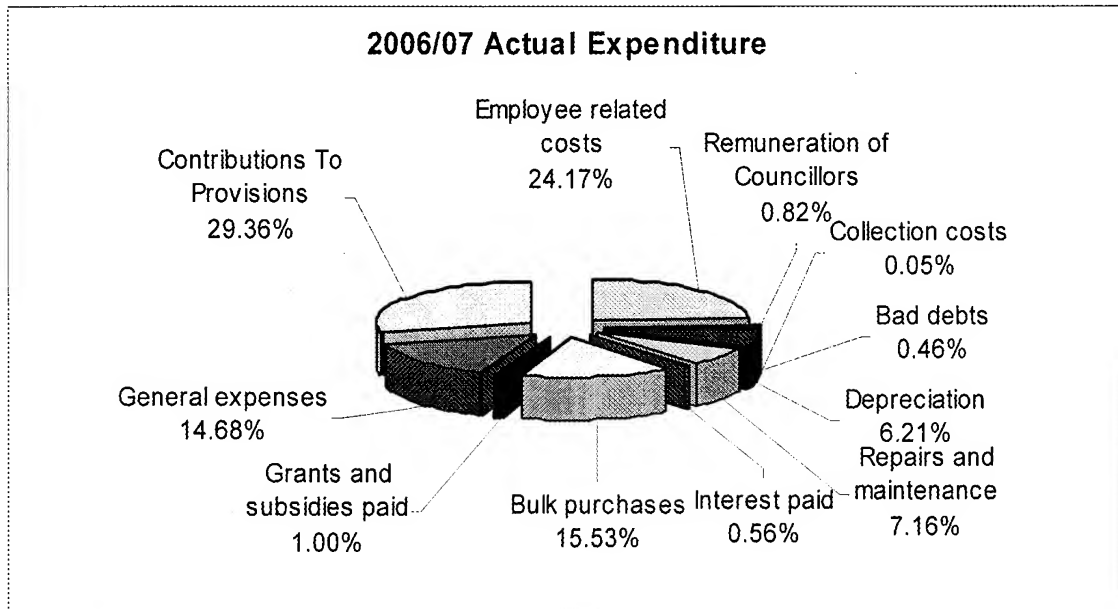
The 2006/07 increase in actual revenue and expenditure amounted to 35% and 38% respectively, compared to the 2005/06 financial year.

### 3.1 OPERATING EXPENDITURE

The analysis of Council's operating expenditure is as follows:

|                             |                      |                |
|-----------------------------|----------------------|----------------|
| Employee related costs      | 1 036 653 107        | 24.17%         |
| Remuneration of Councillors | 35 335 941           | 0.82%          |
| Bad debts                   | 19 604 984           | 0.46%          |
| Collection costs            | 2 061 166            | 0.05%          |
| Depreciation                | 266 587 719          | 6.21%          |
| Repairs and maintenance     | 307 142 106          | 7.16%          |
| Interest paid               | 24 183 338           | 0.56%          |
| Bulk purchases              | 666 322 864          | 15.53%         |
| Grants and subsidies paid   | 42 970 595           | 1.00%          |
| General expenses            | 629 994 135          | 14.68%         |
| Contributions To Provisions | 1 259 785 579        | 29.36%         |
| <b>Total Expenditure</b>    | <b>4 290 641 532</b> | <b>100.00%</b> |

The expenditure analysis is reflected in the following graph:



Expenditure such as personnel costs, purchase of power and general expenses in respect of which Council has limited capacity to adjust in the short term, account for approximately 54% of operating expenditure. This leaves limited scope for variation of other expenditure categories.

An analysis of personnel costs by service is as follows:

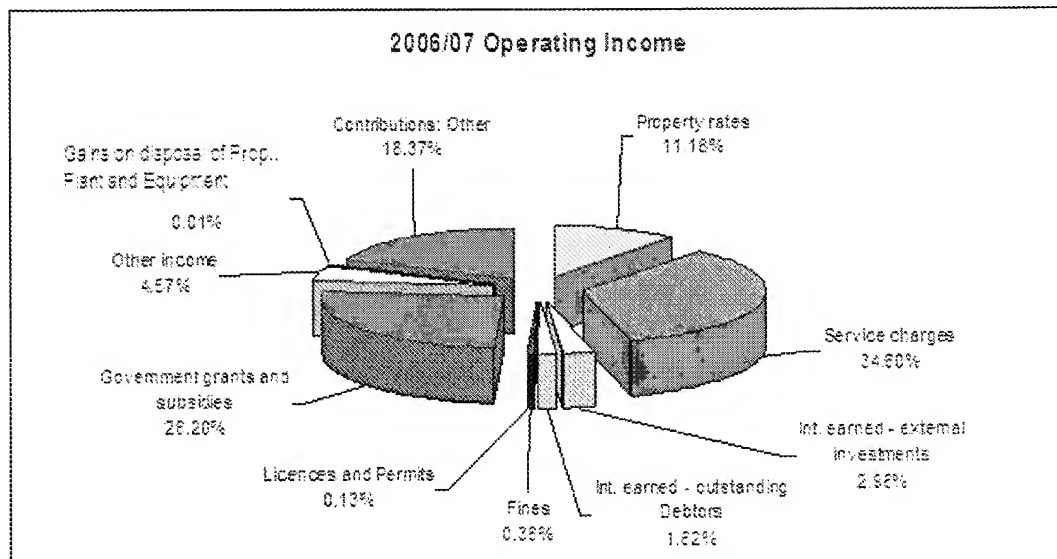
| Service          | Original Budget        | Actual Expenditure     | Variance with Original Budget {Over/(Under)} |             |
|------------------|------------------------|------------------------|----------------------------------------------|-------------|
|                  | R                      | R                      | R                                            | %           |
| Rate and General | 758 471 710            | 777 561 758            | 19 090 048                                   | 2.5%        |
| Electricity      | 115 891 650            | 123 203 465            | 7 311 815                                    | 6.3%        |
| Market           | 4 915 740              | 5 118 168              | 202 428                                      | 4.1%        |
| Refuse           | 28 386 260             | 31 776 429             | 3 390 169                                    | 11.9%       |
| Sanitation       | 56 472 320             | 46 593 123             | (9 879 197)                                  | (17.5%)     |
| Water            | 61 570 740             | 52 400 164             | (9 170 576)                                  | (14.9%)     |
|                  | <b>R 1 025 708 420</b> | <b>R 1 036 653 107</b> | <b>R 10 944 687</b>                          | <b>1.1%</b> |

### 3.2 OPERATING INCOME

The following is a breakdown of Council's operating income represented by the respective income categories:

|                                                    | R                    | % of Total Revenue |
|----------------------------------------------------|----------------------|--------------------|
| <b>REVENUE</b>                                     |                      |                    |
| Property rates                                     | 533 190 364          | 11.18%             |
| Service charges                                    | 1 653 138 228        | 34.60%             |
| Interest earned - external investments             | 141 611 910          | 2.96%              |
| Interest earned - outstanding Debtors              | 77 367 969           | 1.62%              |
| Fines                                              | 17 368 619           | 0.36%              |
| Licences and Permits                               | 6 409 122            | 0.13%              |
| Government grants and subsidies                    | 1 251 855 724        | 26.20%             |
| Other income                                       | 218 536 032          | 4.57%              |
| Gains on disposal of Property, Plant and Equipment | 593 785              | 0.01%              |
| Contributions: Other                               | 877 738 543          | 18.37%             |
| <b>Total Revenue</b>                               | <b>4 777 810 296</b> | <b>100.00%</b>     |

The above breakdown is displayed in the following pie-chart:



Service charges, property rates and grants and subsidies are the major sources of income, constituting 72% of the income base.

The net operating results are normally reflected in the balance sheet, which will now be discussed.

### **3.3 OPERATING RESULTS - VARIANCES**

Total accrued operating expenditure<sup>3</sup> amounted to R4 290 641 532, whilst the total accrued income amounted to R4 777 810 296. This resulted in an excess of accrued operating income over accrued operating expenditure of R487 168 764 for the year.

After comparing actual accrued expenditure and accrued income with the original budget, the results are attributable to the following:

<sup>3</sup> Expenditure incurred in the daily operations of the organisation, such as remunerating personnel, transport, repairs and maintenance of equipment, etc.

|                                         | R                    | Variance           | R                        |
|-----------------------------------------|----------------------|--------------------|--------------------------|
| <b>Expenditure less than budget:</b>    |                      | <b>%</b>           |                          |
| Councillors' Remuneration               | 1 792 909            | 5                  |                          |
| Interest Paid                           | 4 247 392            | 15                 |                          |
| Collection Costs                        | 115 864              | 5                  |                          |
| Bulk Purchases                          | <u>10 332 056</u>    |                    | 216 488 221              |
| <b>Expenditure greater than budget:</b> |                      |                    |                          |
| Employee related costs                  | (10 944 687)         | 1                  |                          |
| Bad Debts                               | (17 470 283)         | 818                |                          |
| Depreciation                            | (54 585 629)         | 26                 |                          |
| Repairs and Maintenance                 | (29 052 206)         | 10                 |                          |
| Grants and subsidies paid               | (29 462 805)         | 218                |                          |
| General Expenses                        | (278 379 295)        | 79                 |                          |
| Contributions to Provisions             | <u>(733 224 538)</u> | 139                | (1 153 119 443)          |
| <b>Income in excess of Budget:</b>      |                      |                    |                          |
| Service Charges                         |                      | 16 470 228         | 1                        |
| Interest Earned – Outstanding Debtors   |                      | 21 657 969         | 39                       |
| Interest Earned - External Investments  |                      | 6 660 130          | 5                        |
| Government Grants and Subsidies         |                      | 684 464 064        | 121                      |
| Gains on disposal of PPE                |                      | 572 485            | 2 688                    |
| Other Income                            |                      | 35 424 992         | 19                       |
| Licences and Permits                    |                      | 37 602             |                          |
| Contributions - other                   |                      | <u>871 492 513</u> | 13 953 1 636 779 983     |
| <b>Income less than Budget:</b>         |                      |                    |                          |
| Property Rates                          |                      | (8 682 426)        | (2)                      |
| Fines                                   |                      | <u>(4 297 571)</u> | (20) <u>(12 979 997)</u> |
| Net Accrued Surplus                     |                      |                    | <u>487 168 764</u>       |

Detailed below are the reasons for the more significant variations:

**3.3.1 Underspending against budget:**

**3.3.1.1 Interest Paid – R4 247 392**

The underspending is mainly due to the refinancing and consolidation of DBSA loans at more favourable interest rates.

**3.3.1.2 Bulk Purchases – R10 332 056**

The underspending in bulk purchases of R10 332 056 is mainly due to the lower than anticipated growth in bulk electricity purchases and steam raising purchases.

**3.3.2 Expenditure greater than budget:**

**3.3.2.1 Employee related costs – R10 944 687**

The increased spending in personnel costs is mainly due to the payment of additional transitional allowances, which was not provided for in the original budget.

**3.3.2.2 Bad Debts – R17 470 283**

The increased spending in respect of bad debts is as a result of increased debt write-offs in 2006/07.

**3.3.2.3 Depreciation – R54 585 629**

Depreciation is R54 585 629 more than budgeted due to the higher than anticipated final capital expenditure for 2006/07, resulting in more assets being commissioned.



### **3.3.2.4 Repairs and Maintenance – R29 052 206**

The increased spending of R29 052 206 is as a result of higher maintenance expenditure on Electricity Service overhead and underground lines maintenance, as well as the Water and Sanitation Services' plant and network maintenance.

### **3.3.2.5 General Expenses – R278 379 295**

This category of expenditure is much higher than anticipated due to the Housing Top Structures expenditure of R82 million, which had no budget allocation on the original approved operating budget as well as Assistance-to-the-Poor rebates, which was R131 million in excess of the budgeted amount.

### **3.3.2.6 Contributions – R733 224 538**

The increased spending resulted from the need to adjust the provisions to their correct levels, especially the Provision for Post-Retirement Benefits which exceeded its budgeted amount by R432 million. This category also includes the Capital Income Appropriation in respect of Capital Grants and Subsidy income of R422 million which was not budgeted for.

## **3.3.3 Income in excess of budget:**

### **3.3.3.1 Service Charges – R16 470 228**

The service charges in excess of budget are largely due to Water and Sanitation Services' income being higher than anticipated.

### **3.3.3.2 Interest Earned – Outstanding Debtors – R21 657 969**

The income from interest on outstanding debtors is higher than expected, due both to the increase in the overall outstanding debtors' balances and an increase in the interest rate.

### **3.3.3.3 *Interest Earned – External Investments – R6 660 130***

The interest earned on external investments is more than budgeted due to the higher interest rate on external investments.

### **3.3.3.4 *Government Grants and Subsidies – R684 464 064***

The excess income is attributable to the Housing Top Structure subsidy of R66 million as well as the capital grant and subsidy allocations of R428 million which were not included in the original approved operating budget and the Equitable Share Subsidy funding of ATTP which was exceeded by R144 million.

### **3.3.3.5 *Other Income – R35 424 992***

This category includes income from Sale of Land of approximately R11 million, which was not included in the original budget as well as other miscellaneous income items, such as plan fees being in excess of the original budget.

### **3.3.3.6 *Contribution - Other – R871 492 513***

The excess results from the Capital funding of Provincial Government Programmes of R647 million not originally included in the budget, the unspent levies of R53 million brought forward into 2006/07 and an R18 million contribution from the provision for doubtful debts in excess of the budget.

## **4. *BALANCE SHEET***

The balance sheet reflects the financial results and policies of Council at a particular point in time. It is a snapshot at the year-end to determine the asset worth of the organisation and to what extent that worth is encumbered.

#### **4.1      *Financial Policies***

The objectives of the Financial Policy Review adopted by Council on 25 October 1995 were to establish a Loans Redemption Fund, an adequate Working Capital Reserve and a General Reserve, as prerequisites for attracting external investors. It should be noted that in accordance with GAMAP, the Working Capital Reserve ceased to exist and therefore the balance was transferred to the Provision for Doubtful Debts with effect from 1 July 2002, whilst the maintenance of a general reserve is no longer permissible.

There were no major financial policy reviews in the year under review that deviated from this course. The level of the Provision for Doubtful Debts is maintained at 100% of amounts owing by debtors older than 90 days.

#### **4.2      *Housing Development Fund***

The fund decreased by R6 507 657 (7.8%) from R83 038 007 to R76 530 350.

#### **4.3      *Capital Replacement Reserve***

The reserve increased by R186 598 636 (79.0%) from R236 317 538 to R422 916 174. This increase is mainly attributable to increased contributions to the reserve.

#### **4.4      *Government Grant Reserve***

The reserve increased by R521 518 832 (76,1%) from R685 371 949 to R1 206 890 781. The increase is mainly attributable to the utilisation of Capital Grants to purchase various items of property, plant and equipment.

#### **4.5      *Donations and Public Contribution Reserve***

The reserve increased by R94 997 533 (79,5%) from R119 533 930 to R214 531 463. The increase is mainly attributable to the appropriate accounting for the

Municipality's movable assets, which was initially financed from operating income but has now been capitalised. The process involved physically locating the assets, inspecting its condition and attaching values to the assets.

#### **4.6 Non-current Liabilities**

##### **4.6.1 Long-term liabilities<sup>5</sup>**

Long-term liabilities amounted to R213 833 597, compared to R413 256 746 in the previous financial year, and are made up as follows:

|                    | <b>2006/07</b>      | <b>2005/06</b>      |
|--------------------|---------------------|---------------------|
|                    | <b>R</b>            | <b>R</b>            |
| External loans     | 213 833 597         | 258 622 959         |
| Provision for ABSA |                     |                     |
| Leaseback rental   | <u>0</u>            | <u>154 633 786</u>  |
|                    | <u>R213 833 597</u> | <u>R413 256 746</u> |

Long-term liabilities consequently decreased by R199,4 million, compared to the 2005/06 financial year, mainly as a result of the cessation of the long-term ABSA leaseback rental agreement.

#### **4.6.2 Non-Current Provisions**

##### **4.6.2.1 Provision for Post Retirement Benefits**

This Provision increased by R447 129 392 from R298 895 129 to R746 024 521 based on an actuarially assessed valuation as at 30 June 2007. The provision now fully covers the liability relating to post-retirement medical aid benefits.

##### **4.6.2.2 Provision for Rehabilitation of Landfill Sites**

Provision has been made for the costs relating to the rehabilitation of landfill sites situated at Arlington, Koedoeskloof and Ibhayi. The costs as determined were discounted to the present day costs of rehabilitating the tip sites by adjusting for inflation related increases and applying a discounting factor equivalent to the

---

<sup>5</sup> Long-term liabilities consist of mainly external loans repayable over a period of longer than one year after the balance sheet date.

average cost of borrowing. The discounted rehabilitation costs of landfill sites amounted to R71 545 345.

#### **4.7. Property, Plant and Equipment**

Property, plant and equipment include infrastructure, buildings, plant and equipment, and amounted to R3 966 145 658 compared to R3 165 617 250 in the 2005/06 financial year. This represents an increase of R800,5 million or 25%.

#### **4.8 Cash and Investments**

Investments amounted to R1 444 792 962, compared to R1 467 861 595 in the 2005/06 financial year. This represents a decrease of R23 million or 1.5%.

The total amount invested, however, contains certain monies earmarked for specific purposes as indicated below, over which Council has limited discretion. The net monies available to Council are as follows:

|                                                               | <b>2006/07</b>       | <b>2005/06</b>       |
|---------------------------------------------------------------|----------------------|----------------------|
|                                                               | <b>R</b>             | <b>R</b>             |
| Investments                                                   | 1 444 792 962        | 1 467 861 595        |
| <b>Less: Monies earmarked for specific purposes:</b>          | <b>1 152 893 050</b> | <b>1 028 602 617</b> |
| Housing development fund                                      | 76 530 350           | 83 038 007           |
| Unspent Conditional Grants                                    | 462 970 099          | 473 419 238          |
| Capital Replacement Reserve                                   | 422 916 174          | 236 317 538          |
| Repayment of External Loans                                   | 18 763 885           | 26 370 082           |
| Self-Insurance Reserve                                        | 85 121 592           | 75 563 229           |
| Consumer Deposits                                             | 86 590 950           | 80 634 634           |
| Unspent RSC Levies Income                                     |                      | 53 259 889           |
| <b>Net amount available to Council to finance commitments</b> | <b>291 899 912</b>   | <b>439 258 978</b>   |
| <b>Add: Call Investment Deposits</b>                          | <b>55 555 956</b>    | <b>55 174 189</b>    |
| <b>: Bank Balances and cash</b>                               | <b>215 431 857</b>   | <b>53 026 362</b>    |
| <b>Total amount available to Council</b>                      | <b>562 887 725</b>   | <b>547 459 529</b>   |

#### 4.9 Debtors

Debtors amounted to R1 193 537 158 before deduction of the Provision for Doubtful Debts of R601 502 396.

The increase in debtors is a source of concern for the following main reasons:

- It diminishes the ability to spend on infrastructure development required for anticipated economic growth and to address service backlogs in the underdeveloped areas.
- It influences Council's credit rating and ability to raise loans on competitive terms.
- It limits the ability to budget for growth.
- It affects tariffs negatively, requiring higher than inflation increases.
- It influences the level of expenditure on the maintenance of assets.

The inability to collect outstanding debts timeously is reflected in the debtors' collection period. The situation is as follows:

##### 4.9.1 *Average Debtors' Collection Period for Electricity, Water, Refuse, Sewerage and Property Rates*

|                         |               |
|-------------------------|---------------|
| Debtors                 | 1 193 537 158 |
| Tariff Income and Rates | 2 186 328 593 |
| Number of Days          | 199           |
| Target                  | 55            |

The following calculation illustrates the amount unnecessarily tied up in debtors as at 30 June 2007:

$$\frac{199-55 \text{ (days)}}{199 \text{ (days)}} \times \text{R1 193 537 158} = \text{R863 665 079}$$

If the debtor's turnover ratio could be reduced to 55 days, an amount of R864 million will become available, which could be used for service delivery, infrastructure development and supporting more affordable tariffs, all of which will contribute towards making the Nelson Mandela Bay Metropolitan Municipality more attractive as an investment destination.

#### **4.10 Creditors**

Creditors amounted to R878 321 965, compared to R544 571 149 in the previous financial year. It should be noted that creditors are paid regularly.

### **5. OVERALL RESULTS AND COMMENTS**

The overall financial results are generally considered to be acceptable. In order to sustain this situation the maintenance of sound financial management practices is required as well as mitigating the risks that impact on financial sustainability by instituting appropriate measures to address such risks.

The present risks are essentially the following:

- Continued non-payment of accounts by debtors.
- The requirement to contain personnel costs.
- Non-compliance with sound financial management practices.
- Limited spending on the maintenance and renewal of infrastructure assets.
- Possible acceptance by the Municipality of unfunded mandates.